

Management Discussion & Analysis

The Group recorded a turnover of HK\$688,786,000 for the nine months period ended 31 December 2003. Gross profit was HK\$98,658,000. The Group reported an operating loss of HK\$52,072,000 and net loss from ordinary activities attributable to shareholders was HK\$76,185,000.

Systems Integration and Application Solution Services

The turnover from systems integration and application solution services was HK\$397,917,000, accounting for 57.8% of the consolidated turnover. This business segment was adversely affected by the slowdown of IT projects in China due to the outbreak of SARS in the second quarter of 2003 and sluggish IT spending in general. The Group recorded a segment loss of HK\$16,210,000 from this segment.

In line with the Group's strategic road map to transform into a solution-based IT service provider, during the period, the Group has made great efforts and investments in implementing various strategies and measures to provide high value-added services to our customers. The formation of "Vanda InnovAsia" which comprises a team of IT professionals with deep domain skill in banking applications is part of this strategic transformation. The team at Vanda InnovAsia provides business applications and a wide spectrum of IT services from consulting, software and application development to systems infrastructure and outsourcing.

Despite corporate IT spending was in general cautious, we see robust demand in segments such as storage, security and system management. The Group has therefore launched solutions and services for these segments to meet with the demand. The Group has seen the pay-off of the efforts as some of the segments have become the major source of income for annuity service.

In the meantime, the Group was also very active in establishing business relationship with international technology companies. This has helped the Group enrich its product offerings to customers and enter into new market segments. Our strategic alliances with Business Objects, the world's leading business intelligence tools provider, has allowed our PRC software

team to develop high performance Business Intelligence solutions for clients in the PRC banking and taxation industries. A co-operation agreement was also reached with Misys International Banking System Limited, a renowned business solution provider to jointly develop international business solutions for the PRC domestic banking market. In addition, the exclusive agreement with KEBA, a leading automation machinery and solutions provider based in Austria, allowed the Group to market a full line of self service banking products in the PRC including ATM products, after sales services and application solutions services.

Notwithstanding the challenging market conditions, the Group has secured a great number of contracts in the PRC for systems integration projects. New contracts included Headquarter Payment System Project for the People's Bank of China, Beijing Data Back-up Centre for China Foreign Exchange Trade Centre; Data Centre Network Integration Project for China Union Pay; Provincial Data Consolidation Project for Rural Credit Cooperatives Bank in Jiangsu; Disaster Back Up Project for the Overseas Centre of Industrial and Commercial Bank of China in Shenzhen; Agricultural Bank of China Zhejiang Branch and Xinhua News Agency.

In Hong Kong, Macau and Singapore, the Group also obtained system infrastructure services contracts from a host of clients including Asia Television, CTS Cargo HK and China Travel Service Holdings Ltd in Hong Kong, Banco Commercial de Macau in Macau and United Overseas China Bank and Singapore Telecommunications (SingTel) in Singapore.

Testament to the quality work we deliver, the Group has been awarded a number of major industry awards. These include "Top Financial Solutions Promotion 2003" by IBM and "2003 China Fastest Growth Business Partner Award" by Cisco for the PRC. In Hong Kong, the division was awarded "IBM Business Partner of the Year" among others.

Infrastructure Solutions

During the period, the turnover from infrastructure solutions in Southeast Asia was HK\$290,869,000, representing 42.2% of the consolidated turnover. The business recorded a segment profit of HK\$7,900,000.

The infrastructure remained competitive in the period under review. Competition was further aggravated by the SARS, which slowed down IT procurement, creating downward pressure on margin. We managed to offset some of this pressure thanks to our strategy of shifting our business focus on direct client business to strengthen our relationship with customers and ultimately improve profit margin.

During the period, our distribution arm Azure Technologies in Singapore, Malaysia and the Philippines continued to report new wins in contracts including Unilever Singapore and Super Value Inc. and Pilipinas Shell in the Philippines.

Our sales team in Singapore continued to be recognised by key industry awards, including the "Top IBM Business Partner 2003" awarded by IBM.

LIQUIDITY AND CAPITAL RESOURCES

On 3 September 2003, HIL and DBS Private Equity fully exercised their conversion rights attaching to the convertible bonds issued by the Company at a conversion price of HK\$0.30 per share according to the amendment agreements approved in the special general meeting held on 29 August 2003.

As at 31 December 2003, the Group's total cash and bank balances and bank deposits (including pledged deposits) amounted to HK\$194,370,000 (31 March 2003: HK\$170,272,000) and the Group's interest-bearing loans was HK\$83,208,000 (31 March 2003: HK\$91,703,000). HK\$81,122,000 of the amounts of the interest-bearing bank loans were repayable within one year and the remaining portion were repayable within a period of two to five years.

As at 31 December 2003 and 31 March 2003, gearing ratio have not been shown as the Group is in a net cash position.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 658 employees as at 31 December 2003 (31 March 2003: 616 employees). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include a medical scheme, provident fund and share option schemes.