DIVISIONAL OPERATIONS HIGHLIGHTS

The turnover of the Group's Solution Services Division grew significantly due to the revenue generated from the progressive delivery of the two large-scale solution outsourcing projects from the SAR Government, namely the Integrated Registration Information System (IRIS) for the Land Registry and the Customer Care and Billing System (CCBS) for the Water Supplies Department.

In order to reduce the development costs, the Group has been leveraging the human resources from China increasingly. The Group's software development outsourcing centre in Shenzhen is getting in shape by building up quality delivery team with more efficient cost structures. Such operation in Shenzhen has recently been certified by the Ministry of Science and Technology Bureau of the PRC Government as one of the twenty-nine top quality software companies recognised for the 中國歐美軟件出口工程 (China Software Export Pilot Project – Europe/US Market). Such recognition reveals the Group's competitive strength in providing offshore software development service to the markets in the United States and Europe.

Leveraging the strong branding of the Group built on top of the numerous large-scale reference projects and the improving development efficiency. The management of the Group (the "Management") believes that the Group is well positioned to explore the huge market of software development outsourcing business.

In spite of the continuously competitive market environment of the systems and network integration business in China, the Group has managed to increase both revenue and contributed profit from the related business in 2003 through implementing an optimised, competitive cost-structure together with the execution of the Group's strategy to build strategic partnerships with selected long term customers by providing various value-added services to their critical IT systems and applications.

During the reporting period, the Group's Integration Services Division continued to receive strong repeated businesses from enterprise customers in finance and manufacturing industries in China. There is increasing revenue generated from outsourcing services such as network infrastructure maintenance and software development. Management believes that the gradually raised appreciation on value of software and services in China will bring in more opportunities for the Group to leverage its experiences and proven track records in delivering large-scale IT outsourcing services and to capture the market growth ahead of competitions.

Furthermore, partnering with leading vendors like Cisco, HP, IBM and Nokia, the Group has also attained considerable business related to network infrastructure, systems and storage platform as well as network security products and services. It is anticipated that such market demands will uphold in the medium term.

Another encouraging sign of the Group's China business arises from the increasing opportunities for the Group to provide, as the authorised service provider of certain long-term enterprise customers, implementation and maintenance services to their national-wide operations and supply-chain networks. While the profit margin of those master contracts may not be extraordinary, they provide opportunities for the Group to capture a large customer base with recurring maintenance service income in subsequent years.

As discussed above, the Group was granted a five-year contract in April 2003 from the SAR Government to provide front-end GETS Services. The GETS contract provides the Group promising opportunities in providing e-business services to the trading and logistic service industry. Management had dedicated its attention and resources throughout the year to establish the technology and servicing platform to prepare for the launch of the GETS business. With the concerted efforts, the GETS business was successfully launched on 1 January 2004 and the Group is now one of the only two GETS operators to serve a community of 50,000-70,000 traders in Hong Kong.

Together with the Electronic Tendering System ("ETS") that the Group is currently operating for the SAR Government, the Group is now positioned as a major government-to-business electronic services provider. The GETS business presents the Group with a potential to generate substantial and recurring transaction-based income with a satisfactory return on investment in long-term. However, it will take the Group certain time and efforts to build the necessary critical mass of customer base before the operation starts to contribute substantial profit. Meanwhile, the initial investments and the start-up operations of the GETS business may affect the immediate financial performance of the related business division and hence the Group.

The acquisition of IPL Research Limited ("IPL") has taken place for more than two years. IPL has been smoothly integrated into the Group and generated synergy effects. Apart from expansion into China, IPL has expanded its market to provide human resource management solutions (HRMS) into the government sector leveraging the Group's successful track records and experiences in the SAR Government organisations and in China.

In 2003, IPL won the Outstanding Line Of Business Award for the Year from Microsoft. Leveraging the latest technology from Microsoft, IPL is now developing a new web-based HRMS with additional features. Partnership with Microsoft is envisaged to strengthen IPL's time-to-market capacity and to extend its market reach to more enterprise prospects.

The business of IPL, however, was severely impacted by the outbreak of SARS in the first half of 2003 during which most of the commercial decisions were on hold. Its business in the second half had resumed normal and the business potentials in 2004 is optimistic.

The SARS outbreaks in both Hong Kong and Taiwan had also severely impacted the Group's distribution business operating by Maxfair in year 2003 when consumers' spending were unusually weak. With the growth of business from Maxfair's subsidiary in Taiwan, which established in 2002 has become stable and profitable by itself, Maxfair was able to maintain a stable revenue and profit contribution to the Group.

Management is actively exploring opportunities to replicate the model of Maxfair in major cities of China. By doing so, Management believes it will help Maxfair building a larger scale of economy. The resulting regional footprint will facilitate the Group to capture the rapidly growing demands more effectively for digital audio-video products in the consumer market.

FINANCIAL HIGHLIGHTS

Results

During the year under review, the Group recorded an increase in revenue and a turn back into operating profit after suffered from operating losses in the previous two years. The consolidated revenue increased by 57.2% to HK$362.1 million compared with HK$230.4 million in 2002. The net profit attributable to shareholders is HK$6.1 million representing an improvement by HK$45.7 million from net loss of HK$39.6 million in the prior year. The Group's Integration Services and Solutions Services divisions were the key contributors for the increase in revenue and operating results.

The Group's gross profit increased by 41.4% from HK$53.8 million in 2002 to HK$76.1 million. The operating costs also reduced to HK$77.8 million from HK$102.1 million in 2002 reflecting the improvements of internal operating efficiencies.

Liquidity and Financial Resources

As at 31 December 2003, the Group's cash and bank balances (excluded pledged deposits) amounted to HK$101.4 million compared with HK$186.2 million as at 31 December 2002 represented a decrease of 45.5%. The significant reduction in cash balance was due to the internal financing of the implementations of two large-scale solution contracts with the SAR Government from which positive cash flow are expected to be generated during year 2004. Besides the internal financing, the Group also arranged short term (less than 12 months) bank financing for settlement of some purchases from its supplies for the projects. The facilities are on revolving basis and with limited repayment restrictions. The interest rate was priced at close to banks' funding costs and the interests charged to the Group are only on the actual outstanding borrowings. As at 31 December 2003, the Group's gearing ratio, measured on the basis of total borrowings as the percentage of net current assets, was increased to 14.9% compared with 0.12% as at 31 December 2002. The denominations of the borrowings were in United States Dollars and Hong Kong Dollars. Due to the structure and the duration of the borrowings, in Management view, the exposures both in interest rate and foreign exchange fluctuations are insignificant, so long as the Hong Kong-United States dollar exchange rate remains linked.

Pledged Assets

As at 31 December 2003, the Group's fixed assets of HK$8,500,000 (2002: HK$9,000,000), deposits of HK$43,969,000 (2002: HK$15,069,000) and the held-to-maturity securities of HK$8,565,000 (2002: Nil) were pledged to secure general banking facilities, performance guarantees and the revolving banking facilities granted to various subsidiaries.

Capital expenditures and Commitments

Out of the Group's capital expenditures totaling HK$27,780,000 (2002: HK$3,101,000) for the year ended 31 December 2003, approximately HK$10,693,000 (2002: HK$474,000) was spent on computer equipment and software; approximately HK$8,822,000 (2002: HK$1,958,000) was the deferred development costs for developing the government electronic trade facilitation service which currently applied in GETS; and approximately HK$6,433,000 (2002: Nil) was spent on purchase of premises as office and warehouse facilities in Beijing and Hong Kong. The investments in computer equipment and software and the deferred development costs were mainly for generating Government's outsourcing maintenance and the GETS incomes during 2004 and subsequent years. The Groups had no outstanding material capital commitment (2002: Nil) for the year ended 31 December 2003.

Contingent liabilities

Save as the aforesaid and the issuance of corporate guarantees to certain suppliers of the Group in respect of purchase from those suppliers for ordinary course of business, as at 31 December 2003, there were no material contingent liabilities and commitments. At the balance sheet date, the Group's outstanding amount due to these suppliers amounted to HK$5,453,000 (2002: HK$4,750,000).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed 271 full time and 139 contract-based employees (2002: 260 full time and 40 contract-based employees) in Hong Kong, Mainland China and elsewhere, and the geographic proportion is approximately 72%, 24% and 4%, respectively (2002: 61%, 32% and 7%).

Employees' remuneration is in accordance with individual's responsibility and performance and remains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, pension funds, etc, are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of employees share option schemes of the Company and certain subsidiaries that were approved and adopted on 30 May 2002 and 1 July 2000, respectively. During the year, no share options of the Company were granted to the employees and as at 31 December 2003, 3,629,500 of the Company's share options granted to the employees were not exercised.