MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the fourth quarter of FY04, the Group's turnover was HK$284.8 million, a decrease of 27.3% against the same quarter last year. Compared to the third quarter, turnover increased by 22.5%. With improvement in the order book and a more competitive cost structure resulting from restructuring exercise implemented during the third quarter, the Group achieved profit of HK$14.7 million. This compares to the profits of HK$0.8 million in the prior quarter and HK$16.3 million in the fourth quarter of FY03.

FY04 was a challenging year. The annual turnover of HK$964.0 million represented a decrease of 18.5% from FY03. The decline was principally attributable to lower product sales in both Hong Kong and overseas markets which cover Thailand, Macau and Taiwan. Their respective turnovers decreased by 20.1% and 7.2%. The revenue reduction outside Hong Kong was partially offset by the growth in service revenue of 39.1% associated with new outsourcing engagements and expansion from existing contracts. Service revenue for Hong Kong remained stable. In respect of revenue mix, public sector sales accounts for 54.2% of the total turnover of FY04 (FY03: 55.4%) and service offering 34.4% (FY03: 22.6%). The change in sales mix arose from reduced demand and price competition on computer products, the Group's success in securing bulk service contracts with the Hong Kong government and new outsourcing contracts with Motorola and Bombardier Transportation in Hong Kong and Thailand.

For FY04, the profit for the year was HK$18.2 million (FY03: HK$39.0 million). The profit from operations was HK$22.0 million, decreased by 50.9% or HK$22.8 million relative to FY03, due mainly to lower dividend income, lower gain from the disposal of the Group's listed investment in Taiwan and higher restructuring cost. Excluding the above impact, the profit from operations decreased by only HK$1.6 million despite a decline of HK$218.5 million in turnover. This reflects the improved operational efficiency and benefits from the restructuring exercise. During the year, sales and technical support costs, distribution costs and administrative expenses decreased by HK$47.0 million due to reduction in the number of staff. The Hong Kong subsidiary and each of our overseas operations were profitable in FY04.

New awards in FY04 included several contracts with our long-term finance and banking customers like Merrill Lynch and CLSA to provide IT and systems integration services. Cathay Pacific has engaged us in relation to the implementation of Storage Area Network (SAN) solution, and Café de Coral for whom we developed a Business Management System (BMS) has signed a new contract with us for the extension of BMS. During the year, we continued to get new contracts from educational institutions and various government departments. The Group won the Data Management Software and Services Bulk Contract in Category A and Category C to serve the Housing Authority. We were selected as one of the service suppliers in the government Backbone Network Standing Offer Agreement. In Thailand, our subsidiary was awarded new contract from a leading regional banking customer to provide a Group Workflow and Imaging System.

The Group maintained a strong balance sheet and ended FY04 with an increased net cash balance of HK$324.3 million. The gearing ratio was 3.9% and the working capital ratio 1.97:1.

Prospect

In FY04, the Group strived to move to higher value service model by focusing on a more targeted clientele and realigning our organization to harness our core strengths. A key element of our strategy is our focus on continuing to grow our solutions and service business and providing greater value-added services to our customers. We have implemented a new sales framework to better identify and serve the needs of our customers. We are re-organizing our core functions to be consistent with the global structure of our ultimate holding company, Computer Sciences Corporation (CSC), enabling us to better utilize CSC's global and regional resources. We expect the Group's IT solutions, maintenance and managed services businesses to play a bigger role in extending our position over the next several years.

Moreover, the Group has experience and long time presence in overseas markets of Thailand, Macau and Taiwan. To leverage on our regional knowledge and broaden the customer base, we plan to further strengthen our business outside Hong Kong.

We believe that the performance of the Group will still largely depend on the overall economic environment. If the recent improvement in Hong Kong's economy persists, we are confident that the Group will be able to benefit from that growth. Internally, we will continue to improve our service excellence and develop a flexible approach in aligning the cost structure with revenue.

Financial Resources and Liquidity

As at 31st March, 2004, the Group's total assets of HK$773 million were financed by current liabilities of HK$309 million, deferred tax of HK$9 million, minority interests of HK$7 million and shareholder's equity of HK$448 million. The Group has a working capital ratio of approximately 1.97:1.

As at 31st March, 2004, the Group had an aggregate composite banking facilities from banks of approximately HK$428 million of which HK$47 million was utilized (31st March, 2003: HK$53 million). The Group's gearing ratio was 3.9% (31st March, 2003: 6.6%) as at 31st March, 2004.

There was no charge on the Group's assets as at 31st March, 2004.

Treasury Policies

The Group generally financed its operations with internally generated resources and credit facilities provided by banks in Hong Kong. Bank facilities used by the Group include trust receipt loans, overdrafts and term loans. The interest rates of most of these are fixed by reference to the respective countries' Interbank Offer Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars and United States dollars ("US dollars").

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group will continue to be minimal as long as the policy of the Government of the Hong Kong Special Administrative Region to link the Hong Kong dollars to the US dollars remains in effect. No material exposure to fluctuations in exchange rates was found, and therefore no related hedging financial instrument was applied during the year ended 31st March, 2004.

Contingent Liabilities

Corporate guarantee to banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK$58 million. The performance bond issued by the Group to customers as security of contract was approximately HK$29 million.

Major Customers and Suppliers

During the year, the five largest customers and single largest customer of the Group accounted for approximately 11% and 3%, respectively, of the Group's revenue. The five largest suppliers and single largest supplier of the Group accounted for approximately 46% and 13%, respectively, of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Employee and Remuneration Policies

As at 31st March, 2004, the Group, excluding our associates, employed approximately 952 permanent and contract staff in Hong Kong, Macau, Taiwan and Thailand. The Group remunerates its employees based on their performance, working experience and the prevailing market conditions. Bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance, medical coverage and share options scheme.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21st July, 2004 to 23rd July, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrars, Tengis Limited at G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 20th July, 2004. The dividend warrants will be despatched on 13th August, 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st March, 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited annual results.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2004 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, except that non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the provisions of the Company's bye-laws.

By Order of the Board

LAI Yam Ting
Managing Director
Hong Kong, 17th May, 2004