

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group reported a consolidated turnover of HK\$205.4 million for the six months ended 30 June 2004, as compared with HK\$202.7 million for the corresponding period last year. The operating loss was HK\$7.6 million (2003: profit of HK\$14.8 million) and the net loss attributable to shareholders was HK\$16.7 million (2003: profit of HK\$8.1 million).

The board of directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

BUSINESS REVIEW

Information Technology

The Group's information technology business showed a disappointing performance for the first half of 2004, segment revenue decreased by HK\$32.3 million or 30% which led to a segment loss of HK\$13.2 million compared with a gain of HK\$26.3 million for the corresponding period last year.

During the period under review, the Group missed opportunities to secure several significant contracts prior to 30 June 2004 as a lot of management time was diverted to deal with Company's long suspension and related regulatory matters arising from the acquisition of Xteam Software International Limited, which matters were ultimately resolved in the Group's favour. The Group considers that the unique circumstances leading to the poor performance of the information technology business during the period under review were of a one-off nature.

Other Businesses

The Group's other businesses, namely, restaurant and property investment, performed much better compared with the same period last year. The restaurant business reported a positive segment result of HK\$7.2 million whereas the corresponding figure was a loss of HK\$5.9 million due to the outbreak of SARS in the region. The result of the property investment also jumped to HK\$4.7 million, representing an increase of 157% over last year.

PROSPECTS

After resolving the acquisition issues relating to Xteam Software International Limited, the management has made significant progress in the information technology segment. With in-house Linux expertise in place, the Group is well positioned to increase its market share in its traditional areas of strength, such as, education, social insurances and employment, as well as to penetrate new market sectors where Linux is the preferred software.

FINANCIAL POSITION

The Group had total assets of HK\$848.4 million as at 30 June 2004, which were financed by total liabilities of HK\$342.5 million, minority interests of HK\$60.5 million and shareholders' equity of HK\$445.4 million. The Group's net asset value reduced by 3.6% to HK\$0.9 per share.

As at 30 June 2004, the Group maintained pledged deposits and cash and bank balances of HK\$13.8 million and HK\$78.5 million, respectively. The Group's borrowings amounted to HK\$231.7 million, of which HK\$176.2 million were due within one year. The Group's exposure to exchange fluctuations is insignificant as 78% of the Group's borrowings were denominated in either Renminbi or Hong Kong Dollars and 20% in United States Dollars. Certain properties of the Group with an aggregate carrying value of HK\$61.2 million were pledged as securities for the Group's banking facilities.

The Group had a current ratio (current assets over current liabilities) of 161% as at 30 June 2004. Net debt (total borrowings minus cash and bank balances) was HK\$139.4 million, representing a net debt to equity ratio of 31%.

EMPLOYEES

As at 30 June 2004, the Group employed approximately 1,500 full-time employees. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. The Company also operates a share option scheme for its executive directors and key employees of the Group. No share option was granted or exercised during the period under review, and the Company had 31,100,000 share options outstanding at 30 June 2004.

APPRECIATION

The board of directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the period.

By Order of the Board
ZHANG HONGHAI
Chairman

Hong Kong
7 September 2004