

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

The Group recorded an unaudited profit of HK\$10.1 million for the six months ended 30th September, 2004 as compared to HK\$2.7 million for the same period last year, despite the other operating income from our Taiwan investment reduced by HK\$8.2 million in FY05. The Group was able to achieve an increased operating income of HK\$15.8 million in our Hong Kong operation, mainly attributable to improvement in the banking and finance sector and efficient cost control measures.

The turnover for the three and six months ended 30th September, 2004 were HK\$220.8 million and HK\$450.6 million respectively. These figures were up from HK\$204.1 million and HK\$446.7 million over the corresponding 3-month and 6-month periods in FY04. Our overseas businesses remained stable and accounted for 6.2% of the total turnover.

In terms of revenue mix, 54.5% of the revenue was attributable to the private sector turnover which increased by HK\$21 million during the period compared to FY04. It reflects that the local economy is recovering, that boosts corporate IT spending. The Group's product sales and service offerings including outsourcing activities accounted for 63.9% and 36.1% of the revenue for the six months ended 30th September, 2004, compared with 61.2% and 38.8% for the corresponding period in FY04. The increase in product sales was mainly due to the corporations' initiatives to improve and upgrade their IT infrastructure.

The new contracts awarded in the first half of FY05 are approximately HK\$390 million. Among various industry sectors, the banking and finance sector has demonstrated significant growth in the provision of both IT infrastructure and services. During the period, two international banking and financial institutions engaged our Group to provide integrated solutions for implementation of storage area network. We also won an infrastructure and maintenance project with contract value over HK\$10 million to facilitate the performance of mission-critical tasks by a leading regional bank. In the CLSA Forum 2004, we provided IT infrastructure with on-site maintenance support to our long-term customer CLSA Limited, the forum being one of the world's largest emerging markets investor events. Moreover, we are also the hardware maintenance service provider to CLSA's local office. Apart from the banking sector, our Group won significant maintenance services contracts from other

industries. It is envisaged that these contracts, with tenure ranging from 1 to 3 years, will provide the Group with fresh impetus in broadening its stable and recurrent income base.

The Group ended the second quarter of FY05 with a healthy balance sheet and a net cash balance of HK\$275.1 million. The gearing ratio as at 30th September, 2004 was 3.54% and the working capital ratio was 2.17:1.

ELM Acquisition

A major development in the second quarter of FY05 was the Group's acquisition of the remaining 23% of shares in ELM Computer Technologies Ltd. ("ELM"). The acquisition was completed and announced in July 2004 and reported in the first quarterly results announcement as subsequent event. With this acquisition, ELM has become a wholly owned subsidiary of the Group.

Business Prospects

Looking ahead, we will continue our strategy in growing the solution and higher value-added services and leveraging our expertise and regional capability. To better address the increasingly diverse and complicated needs of customers, we are enhancing our sales teams by instilling industrial knowledge and experience and providing them with more timely and active high-end technical consultancy support. We believe the extra resources that we have invested will further improve our strengths in pursuing the solutions and service offerings business in the long run.

Meanwhile, the local economy still plays a major role in the future development of the Group. With the rebound of Hong Kong economy and renewed optimism, many international banks and financial institutions are showing interest in enhancing their IT applications in Hong Kong, leading to a rise in demand for IT infrastructure and services. With our strong expertise and regional capability, the Group is looking forward to benefit from these rising opportunities in these sectors.

Financial Resources and Liquidity

As at 30th September, 2004, the Group's total assets of HK\$710.9 million were financed by current liabilities of HK\$254.4 million, deferred tax of HK\$9.3 million and shareholders' equity of HK\$447.2 million. The Group had a working capital ratio of approximately 2.17:1.

As at 30th September, 2004, the Group had an aggregate composite banking facilities from banks of approximately HK\$392 million of which HK\$32 million was utilized (31st March, 2004: HK\$47 million). The Group's gearing ratio was 3.54% (31st March, 2004: 3.9%) as at 30th September, 2004.

There was no charge on the Group's assets as at 30th September, 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 included 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. There was no material exposure to fluctuations in exchange rates, and therefore no related hedging financial instrument was applied during the six-month period ended 30th September, 2004.

Contingent Liabilities

Corporate guarantee to banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK\$48 million. The performance bond issued by the Group to customers as security of contract was approximately HK\$16 million.

Employee and Remuneration Policies

As at 30th September, 2004, the Group, excluding its associates, employed 912 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.