

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2005, the Group recorded a turnover of HK\$200.5 million as compared to HK\$205.4 million in the corresponding period last year. The profit from operating activities rose 5 times to HK\$3.2 million from HK\$0.5 million last year.

Loss for the period was HK\$5.1 million, showing a decrease of 43% as compared with HK\$9 million last year. The loss attributable to equity holders of the parent was HK\$8.5 million, showing an increase of 15% from HK\$7.4 million last year. The basic loss per share amounted to 1.7 HK cents.

The board of directors do not recommend the payment of an interim dividend for the period.

BUSINESS REVIEW

Information Technology

The software business made steady progress in the first half of the year. With second half being the busy season, the software business should perform well for the rest of the year.

Other information technology businesses, namely, systems integration and smart cards, continued to remain flat during the period. However, there are current signs that these businesses are beginning to recover in the second half of the year.

Other Businesses

The Group's restaurant business segment continued to make steady progress in the first half of the year. Segment revenue and results increased by 8% and 48% to HK\$129.9 million and HK\$10.6 million, respectively. The Group's property investment business segment remained flat and insignificant during the period under review.

PROSPECTS

The Group has been trying to apply its software and service solutions developed in Beijing to other cities and provinces in China. The Group made some progress in this regard during the first six months. The Group intends to put more efforts and resources in the future to expand nationally.

The Group is currently developing a new Linux based application strategy, which basically involves the bundling of Linux operating system with most commonly used applications and services into one single product for which the customers will pay monthly or yearly fees. Among other things, the Group aims to bring substantial cost benefit, better security protection and more friendly maintenance services to potential customers.

The Group is also actively bidding for Beijing 2008 Olympics transportation related projects. The Group plans to team up with overseas experienced players to increase its competitive edge.

FINANCIAL POSITION

As at 30 June 2005, the total assets of the Group amounted to HK\$907 million, which were financed by shareholders' equity of the parent of HK\$471.8 million, minority interests of HK\$75.1 million and total liabilities of HK\$360.1 million.

As at 30 June 2005, the Group had total cash and bank balances amounted to HK\$104.5 million. The Group's bank borrowings, at floating interest rates, amounted to HK\$191.3 million, of which HK\$187 million were due within one year.

The Group's current ratio (current assets over current liabilities) as at 30 June 2005 was 147% (31 December 2004: 129%). The Group's net debt (total bank borrowings minus cash and bank balances) increased to HK\$86.8 million, representing a net debt to total equity ratio of 16% (31 December 2004: 14%).

The directors consider the Group will have sufficient working capital for its operations and financial resources for financing future investment opportunities in suitable business ventures.

As at 30 June 2005, certain of the Group's banking facilities are secured by the Group's leasehold land and buildings which had an aggregate net book value of HK\$50.4 million and bank balances of HK\$1.2 million. In addition, bank balances of HK\$4 million were pledged as guarantees for tenders and contracts.

The Group had limited exposure to exchange fluctuations and its borrowings and monetary assets were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

The Group incurred capital expenditures of HK\$7.6 million during the period, mainly for purchase of fixed assets and intangible assets totalled HK\$5.2 million and acquisition of an associate of HK\$2.4 million.

As at 30 June 2005, the Group's share of a jointly-controlled entity's own capital commitments was HK\$22.5 million. As at 30 June 2005, the Group had no material contingent liabilities.

EMPLOYEES

As at 30 June 2005, the Group had a total of approximately 1,770 full-time employees (31 December 2004: 1,890), 620 of whom were employed in information technology segment and 1,130 in restaurant segment.

Salaries of employees are maintained at competitive levels while share options and bonuses are granted based on individual and business performance. No share option was granted or exercised during the period under review, and the Company had 28,060,000 share options outstanding at 30 June 2005.

APPRECIATION

The board of directors would like to take this opportunity to extend our gratitude and appreciation to our shareholders and parties for their support, and our hardworking colleagues during the period.

By Order of the Board
ZHANG HONGHAI
Chairman

Hong Kong
8 September 2005

