MANAGEMENT DISCUSSION AND ANALYSIS

Review of Performance

The first half of the year was a period of business repositioning and restructuring for the Group. The management has dedicated its efforts to re-aligning the Group's business focus, streamlining operations in non-performing areas and strengthening areas of growth from among both the existing business portfolio and newly acquired ventures.

For the six months ended 30 June 2001, the Group's turnover was approximately HK$265 million, representing a growth of approximately 44% in comparison with the corresponding period in 2000. During the same period, the Group recorded a net loss attributable to shareholders of HK$37 million compared to a net profit attributable to shareholders of approximately HK$15 million for the corresponding period in 2000.

Management has identified several key factors, in addition to prevailing market conditions, that contributed to these losses. They are examined in the following section, followed by an outline of management's strategies in response.

– The Group's software development operation in Hong Kong, which mainly focuses on e-business development and public-sector projects, continues to face a difficult business environment exacerbated by the global slow-down in e-business development and keen competition in the area of public-sector projects. Despite cost control measures introduced into the division since the first quarter of the year, the division incurred a considerable loss during the first half of the year.

– The Group's mainframe systems integration operation under Sequent China/Hong Kong Limited ("Sequent China"), a 91% owned subsidiary of the Company, has also undergone a period of restructuring. Faced with deteriorating gross margins and the increasing cost of financing on hardware products, the division's principal business focus has been gradually shifting from hardware integration to maintenance, service provision and applications development. As a result of this new strategy, the division has extensively re-aligned its manpower make-up and has thus incurred considerable restructuring costs in the process.

Review of Operations

The Group's mainframe systems integration operations under Sequent China have experienced a slow-down in growth rate after years of robust expansion. Falling gross margins on hardware sales coupled with the increasing cost of financing due to the tight credit policies of vendors, have compelled the division to gradually shift its principal business focus from hardware integration to maintenance and service provision and to applications development. Considerable investment and effort have been and are being made to enhance the service, maintenance and applications development capacity of the division. In the near to medium term, the division will focus on areas such as server consolidation, credit cards and systems upgrade projects.

Performance of the Group's peripherals systems-integration arm, the Topasia operation, continues to be encouraging. The team maintains a clear and focused objective of becoming a leading ATM systems integrator in China. As discussed in our year 2000 annual report, we intended to adopt a more aggressive pricing strategy in order to increase the sales of ATMs. For the first half of the year, the division recorded healthy growth in sales of ATMs with lower gross margins compared to last year. On the other hand, the division has successfully expanded its ATM maintenance and service operation which commands higher gross margins than those from sales of ATMs. During the first half of the year, turnover from this operation almost reached that recorded for the previous twelve months. During the year, the division continued to expand its provision of supplementary systems-integration services in collaboration with EMC, the world's largest independent provider of enterprise intelligence storage systems and software.

As mentioned above, the Group's software development operation in Hong Kong, which mainly focuses on e-business development and public-sector projects, is still operating in a difficult business environment affected by the global slow-down in e-business development and by keen competition for public-sector projects. To deal with this situation, the division has adopted a very clear strategy: to tightly control the size of the operation and its expenditure and to focus only on viable projects that bring a reasonable rate of return. For the remainder of the year, the division will continue to serve the Bank of East Asia and government units such as the Information Technology Services Department and the Housing Authority on a number of software development projects.

Advanced Digital Technology Company Limited ("ADT"), in which the Group holds a 55% interest, has strengthened its position as a driver of the trend toward electronic banking in China. During the first half of the year, ADT has secured a number of contracts from the Industrial and Commercial Bank of China and the China Construction Bank, as well as from other banks such as Hua Xia Bank, CITIC Bank and China Everbright Bank. In terms of product range, the company has added a new home-grown financial front-end system, a personal foreign-exchange trading system and a new Call Center system, as well as NOVA, a new-generation Web-based development platform. In addition, ADT has expanded the scope of its services into software export and has recently signed a contract with NEC for the development of various financial software products. In the years ahead, the company plans to invest considerable resources in the expansion in this area. In essence, ADT's business roll-outs will continue to be technology oriented and geared to proprietary software.

In January 2001, the Group completed the acquisition of a 51% interest in DMX Technologies (Hong Kong) Limited (formerly Skynet Consultants Company Limited) ("DMX Technologies"), a network solutions provider operating in Hong Kong, China and other countries in Asia. During the first half of the year, the company concluded contracts to build the Metropolitan Area Networks ("MANs") for Suzhou CATV and the Gansu and Ningbo branches of China Telecom. MANs and Internet Data Center solutions have been and will continue to be the major business focuses of the company for 2001. Currently, DMX Technologies has four offices in China, namely Beijing, Guangzhou, Fuzhou and Hangzhou, and plans to set up offices in Shanghai and Xian this year to capture the growing demand for the company's services. To complement its solutions, the company has signed up with Top Layer Networks, Infolibria and Comtrend in the development of secure network solutions, multi-media streaming and content distribution solutions as well as access solutions with copper technologies. DMX Technologies is also committed to further expansion in the region. The Singapore and Malaysia offices are already in operation and the company is looking into opportunities in South Korea and Thailand with the possibility of direct operations or joint ventures in those markets.

Prospects

Management views the second half of the year with cautious optimism. Management will redouble its efforts in re-aligning the Group's business focus, streamlining operations in non-performing areas and concentrating resources in growing areas with a view to stabilizing its performance amidst mounting difficulties in the information technology industry.

Management identifies Topasia, ADT and DMX as the key drivers of the Group's future business growth. To strengthen their positions and enhance their profitability, management will work closely with these operations to gradually transform their businesses by increasing the service element component. More value-added services, including maintenance and applications development, will be incorporated in the business mix to upgrade their respective profiles. Management is confident that these business strategies will drive the Group into sustainable long-term profitability and growth.