

BUSINESS REVIEW

Information gathered from various sources has clearly indicated that the growth in China's IT market in 2001 is slowing down from last year which resulted in intensifying competition. Despite this unfavourable market environment, the Group recorded a turnover of HK\$4,935 million and a profit attributable to shareholders of HK\$81 million for the first half of the financial year, which represented an increase of 22% and 21%, respectively, from the same period last year. When comparing the first and second quarters this year with those of the same periods of last year, both the turnover and profit attributable to shareholders have shown a steady growth of above 20% which fulfilled the management's target.

Distribution Business

The distribution business recorded a turnover of HK\$3,872 million during the first half, representing an increase of 20% over the same period last year. On a year-to-year basis, while turnover of this business only grew by 9% during the first quarter, it surged 32% in the second quarter largely due to the significant improvement in the sales of Toshiba notebook computer. Besides, turnover of high-end products, especially CISCO products and UNIX servers, maintained an above-average growth rate. These two reasons also accounted for the increase in gross profit ratio from 6.81% in the first quarter to 7.57% in the second quarter. However, the overall gross profit ratio for the first half of this financial year was 7.20% as compared to 8.89% of the same period of last year. Other than the decrease in the sales of Toshiba notebook computer, the decline in gross profit ratio of the distribution business was also caused by the increase in market competition. During the period, the Group signed cooperation contracts with China Kejian and Alcatel to extend its range of distribution products to mobile phones. Besides, the Group was appointed by EMC as its first service agency for EMC products in China.

Systems Integration Business

The systems integration business recorded a turnover of HK\$708 million which represented an increase of 22% over the same period last year. Its gross profit ratio has improved from 11.42% to 15.71% which was mainly due to an increase in the sales revenue from software related services. However, income in the first and second quarters varied significantly. Since the Group focused on

telecommunications, finance, and government sectors which awarded contracts in large amounts, this has resulted in fluctuations in incomes between quarters. In view of the nature of this business, the management believes such fluctuations will continue in the future. During the period, the Group was named CISCO's gold certified partner, enhancing its status and bringing opportunities for further development.

Networking Products Business

The networking products business recorded a turnover of HK\$355 million which represented an increase of 51% over the same period last year. The gross profit ratio has improved from 22.97% to 24.74%. Similar to the systems integration business, the sales revenue of this business fluctuated between the first and second quarters. This was mainly due to the below-than-expected performance of WAN products caused mainly by delays in the construction of community IT infrastructure projects by some telecommunications operators.

In the second quarter, the Group implemented tighter control in risk management in several areas, including accounts receivable and inventories. After reaching a new high of HK\$1,414 million at the end of the first quarter, accounts receivable has been brought down to HK\$1,381 million in the second quarter. Although inventories have increased slightly to HK\$975 million in the second quarter, the amount was at the same level as at the beginning of this financial year. The management believes that these two items are at a healthy level. On the other hand, accounts payable showed an upward trend in the first and second quarters to HK\$864 million in the second quarter from HK\$675 million at the beginning of this financial year. Due to the above-mentioned reasons, cash flow of the Group has greatly improved in the second quarter. For the second quarter of this financial year, the Group recorded a HK\$83 million operating cash inflow whereas there was a HK\$203 million in operating cash outflow in the first quarter.

As for its e-commerce initiative, the Group has made significant progress in the first half of the year. At the end of September 2001, the aggregate value of on-line orders placed through the Group's e-commerce platform, e-bridge, has reached HK\$935 million.