INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (For the six months ended 30 September 2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the second financial quarter ended 30 September 2003, the Group's turnover amounted to HK$3,720 million, an increase of 26.5% compared to HK$2,941 million recorded in the same period last year. Profit attributable to shareholders increased by 10.6% to HK$58 million compared to HK$52 million of the same period a year ago. As the clearing of mobile telephone inventory was carried out mainly in the second financial quarter with a significant loss incurred, the quarter's gross profit margin retreated to 5.38% which was considerably below the 7.73% recorded in the same period last year. Not taking into account the clearance of mobile telephone inventory, however, the gross profit margin was 7.45% and 7.72% respectively in the first and second financial quarters, representing only a small decline compared to the respective figures of 8.37% and 7.73% for the corresponding quarters last year.

The first half of the financial year marked a period of exceptional circumstances and formidable challenges for the Group. During the first financial quarter, the sudden outbreak of severe acute respiratory syndrome ("SARS") dealt a severe blow to the Group's operations, with the mobile telephone business being most affected for which a special provision of HK$95 million was made. This together with a provision of approximately HK$60 million made for certain trade receivables resulted in a net loss of HK$149 million for the Group in the first financial quarter. Moreover, the increases in inventory and trade receivables had exerted strong pressure on the Group's cash flow as reflected by a net operating cash outflow of HK$642 million during the first financial quarter. Facing these daunting challenges, the Group took decisive measures for a swift turnaround in the second financial quarter. First and foremost was the clearing of mobile telephone backlog, which was completed during the second financial quarter. Since adequate provision had been made for the inventory

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

in the first financial quarter, the clearing of such backlog in the second financial quarter did not have any impact on the Group's net profit. As regard to the operating cash outflow issue, the Group made it a top priority at the beginning of the second financial quarter to strive for business growth while strictly controlling the two benchmarks of trade receivables and inventory. As a result of these devoted efforts, the Group's businesses achieved rapid growth during the second financial quarter despite adopting stringent risk-control measures. Not only did the businesses return to a healthy growth track, the Group also significantly improved its cash flow and reduced its gearing to a lower level. All these laid a solid foundation for the Group to sustain a healthy and solid growth in the second half of the financial year.

For the first half of the financial year, the Group's turnover amounted to HK$7,020 million, an increase of 21.2% compared to HK$5,791 million of the same period a year ago, while the gross profit margin was 6.05%. Not taking into account the clearance of mobile telephone inventory, however, the gross profit margin for the first half of the financial year was 7.60%, representing a small decline compared to 8.05% for the same period last year. The Group recorded a net loss of approximately HK$91 million for the first half of the financial year.

Distribution Business

The Group's IT products distribution business recorded a turnover of HK$3,234 million during the second financial quarter, a significant growth of 25.1% over the same period last year. Its gross profit margin was 3.74%, which, not taking into account the clearance of mobile telephone inventory, amounted to 6.38% that was similar to the 6.48% recorded in the corresponding period last year. As in the case of previous financial quarters, rapid growth in enterprise solution products remained a major driving force for the business. These products included UNIX servers, storage products, software items and network application products such as video conferencing device and network security products. At the same time, solid and rapid growth was maintained for traditional products including notebook computers, desktop computers, and peripherals such as printers. The digital consumer products introduced less than two years ago secured fast growth during the second financial

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

quarter in the aftermath of SARS, and enjoyed the highest growth among the Group's distribution products. Another contributory factor to the continued strong growth of the distribution business related to the ongoing expansion of product range. During the first half of the financial year, the Group introduced a number of products of renowned brand names, including Sharp data projectors and camcorders, NEC data projectors, ASUS notebook computers, Xerox printers and copiers, Palm PDA products and certain Samsung consumer products, with the NEC projectors distributed on an exclusive basis. On 1 July 2003, the Group entered into a strategic alliance agreement with China Great Wall Computer Shenzhen Co., Ltd. ("Great Wall"), pursuant to which the Group was appointed as the exclusive distributor of Great Wall's personal computer products in the PRC, with responsibilities including the development and management of sales channels concerning Great Wall's personal computer business and the provision of after sales services for the products in the PRC. Notwithstanding the relatively short period of time from distribution commencement, the products were able to generate sales of approximately HK$100 million for the Group during the second financial quarter. As a result of the Group's top priority since the second financial quarter for controlling the two major benchmarks of trade receivables and inventory while securing an operating cash inflow, the distribution business was able to meet its sales target while maintaining its trade receivables and inventory at below industry levels. Solid return and healthy cash flow are the two most important guidelines not only for the distribution business but also for all other businesses of the Group.

Currently, the Group apart from maximising the growth potential of its existing products is also vigorously seeking for distribution of other brand products in more sectors. These include PRC brand products for sectors where the Group does not have a strong presence, such as the office automation sector. Furthermore, the Group has secured a major breakthrough in expanding its geographical distribution network. With the strong support of the Hangzhou municipal government, the Group established its 12th operation centre in Hangzhou in early September to enhance its services for the rapidly growing Zhejiang market. The Group will continue to identify other regions of good potential and work closely with the local governments to expand its geographical distribution network, which will provide another driving force for its business growth.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Distribution has always been a sector where the Group commands a leading edge position, and the Group's strategic transformation into an IT services provider is safeguarded by the strong and sustained profits generated by its distribution business. Servicing the product suppliers (who are often the brand proprietors) and providing them with supply-chain management expertise have always been the core principles held by the Group's distribution business. In the face of the ever-changing market environment, the Group will adopt a more proactive approach in distribution to accommodate the suppliers' switch in marketing strategy. Moreover, the Group will explore the possibility of forming closer relationships and strategic alliances with the suppliers.

Systems Integration

The Group's systems integration business recorded a turnover of HK$417 million in the second financial quarter, a significant gain of 38.1% compared with the same period last year. Its gross profit margin also rose to 14.29% compared to 12.99% of the same period a year ago. This was the third consecutive financial quarter since the end of 2002 that the systems integration business reported a turnover growth on a year-to-year comparison. Turnover of the business for the first half of the financial year increased by 15.4% to HK$944 million over the same period last year, whereas the gross profit margin dropped slightly to 13.05% from 13.41% of the same period a year ago. The telecommunications sector has been a major source of revenue for the Group's systems integration business. Unlike last year when the telecommunications sector substantially reduced its IT spending, this year major sectors including the telecommunications sector and the financial sector are expected to maintain relatively stable IT spending. With regard to the telecommunications sector, the Group during the first financial quarter won a HK$93-million project from Netcom concerning the first phase enhancement program of Netcom's IP backbone system and entered into a HK$40-million contract with China Mobile. In early August, the Group secured a HK$14-million contract to provide automatic teller machines maintenance services to the Guangdong branch of the Bank of China for two years. Later in the same month, the Group secured a HK$31-million contract to develop a core banking system for the

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

China Development Bank, which represented a milestone achievement of the Group in further developing business in the financial sector. Sm@rtACE, the Group's self-developed teller solution, has made further inroads into the banking sector. Following its successful implementation in the Agricultural Bank of China, the software is now being implemented in the China Construction Bank and will be introduced to about 20,000 branches of it throughout the PRC. Sm@rtFront, another self-developed banking solution of the Group for front-end channel integration, has also been adopted by the China Construction Bank at its Beijing, Shanghai and Jiangsu branches, which is now extending the usage of the software to other provincial branches.

Transforming into an IT services provider has been the Group's strategy stated ever since its listing in 2001. Following more than two years of hard work, the Group has made significant progress towards this target, which is reflected by the wide recognition of the Group's reputation, software sophistication and professionalism in the telecommunications, financial and government sectors where the Group focuses on. In order to speed up the transformation, the Group will make further efforts to streamline and consolidate its resources to establish a new organisation structure that is vertical client-oriented. This new structure will adopt an account manager responsibility system to provide one-stop services — software solution, systems integration, operation and maintenance support, systems outsourcing, etc. — for sector customers in a closer and more professional manner. It is encouraging that customers in the telecommunications and financial sectors are gradually becoming more sophisticated about the essential value of software solution and related services, which has reinforced the Group's resolution to transform into an IT services provider. The Group is confident that through the organisation structure it will be well prepared to greet the dawn of a service-driven IT market.

In another significant move, the Group, on 24 September 2003, entered into an investment agreement with a member of General Electric ("GE") and TIS Inc. ("TIS"), a company of which its shares are listed on the Tokyo Stock Exchange and Osaka Securities Exchange, to form a joint venture company, DGT Information Systems

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Limited (the "Joint Venture"), to tap the huge market for software development and applications outsourcing. GE is one of the world's largest software outsourcers while TIS is a leading company in providing software development, IT outsourcing and solutions in Japan. The conditions stipulated in the investment agreement have been satisfied on 7 November 2003. The Joint Venture has an initial capital of US$2 million of which the Group has an interest of 55%, while GE, through its member, and TIS holds a 25% and 20% interest respectively. Based on this shareholding ratio, the three parties will make a further capital injection of an aggregate sum of US$1 million into the Joint Venture four months after completion of the investment agreement, resulting in a total issued share capital of US$3 million in the Joint Venture. The Joint Venture will adopt the Original Design Manufacturing (ODM) business model and will capitalise on the cost advantages of production and development in China as well as the connections and experience of GE and TIS in Japan to provide software development, applications outsourcing, IT support and other related professional services to multi-national corporations carrying on business in the PRC and Japan-based corporations. In order to facilitate a fast and healthy development of its business, the Joint Venture has recruited high-calibre management professionals with strong experience in overseas software outsourcing. This Joint Venture marked the Group's formal strategic move to develop the overseas outsourcing markets.

Networking Products

Having experienced an extended decline in turnover during the past year, the Group's networking products business made a turnaround in the first and second financial quarters. Its turnover for the first financial quarter amounted to HK$44.5 million, representing an increase of 15.5% from HK$38.5 million in the fourth quarter of the last financial year. Turnover for the second financial quarter amounted to HK$68 million, representing a significant gain of 53.4% from the first financial quarter and an increase of 27.1% from the same period last year. Moreover, its gross profit margin improved significantly to 28.61% during the second financial quarter compared to 23.16% for the first financial quarter. The continued improvement marked the first sign of a full recovery on a year-to-year comparison

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

following the Group's launch of its proprietary networking products. It can be largely attributed to the Group's breakthrough in developing new networking products, as reflected by the successful launch of two self-developed network switches, the 3526 and 2026B models, in the western China for the education sector. The management firmly believes that with the restructure completed and its management strengthened, Digital China networking products will capture a stronger position in the market with higher endorsement from more users.

Financial Management

To alleviate the pressure brought by the cash outflow recorded in the first financial quarter, the Group has made it a top priority at the beginning of the second financial quarter to achieve business growth while improving the cash flow through stringent control on the two benchmarks of trade receivables and inventory. These efforts have born favourable fruit as evidenced by a significant improvement in the Group's cash flow at the end of second financial quarter. As at 30 September 2003, the Group's trade receivables amounted to HK$1,602 million, as compared to HK$1,765 million at the beginning of the second financial quarter, whereas inventory dropped to HK$1,026 million from HK$1,292 million during the same quarter. Inventory turnover also fell to an average of 29.63 days in the second financial quarter from 33.82 days in the first financial quarter, while trade receivables turnover decreased to an average of 40.74 days from 44.68 days. The satisfactory improvement in the two major benchmarks enabled the Group to achieve a net cash inflow from operating activities of HK$588 million, of which HK$369 million was utilised to repay bank borrowings, which reduced the Group's short-term bank borrowings from HK$735 million at the beginning of the second financial quarter to HK$366 million at the end of the quarter. The Group's risk control measures included stringent control on the amounts of trade receivables and inventory on the one hand, and improvement in the ages of trade receivables and inventory on the other hand, with the paramount objective of minimising the overall proportions of overdue trade receivables and slow-moving inventory. Such works form an integral part of the Group's ongoing efforts for continuous improvement and will be carried on in the remainder of the financial year and beyond.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Following a period of unprecedented difficulties experienced in the first financial quarter, the Group's management has undertaken a serious analysis of the problems, and has discovered the underlying causes. By turning the odds into favour, the Group has enhanced its accountability system at all staff levels, with particular emphasis for the management team members. Moreover, the Group has appropriately streamlined its mobile telephone business in terms of the business scope as well as the workforce. In order to strengthen control on the business developments and daily operations of the business units, the Group has revamped its internal financial management. Through these realignment and correction efforts, the Group's management has formed a consensus on the major issues related to the Group's future development. A more valuable gain from the unprecedented difficulties was the strong and unsurpassed morale exhibited by all staff, which was instrumental to the Group's swift turnaround in the second financial quarter.

Prospects

As the Group embarked on the second half of the financial year, its development strategy underwent a shift in emphasis. In lieu of the inclined quest for rapid business growth, the Group is refocusing on solid returns and healthy cash flow as the fundamentals for the growth of its existing businesses and the employment of new endeavours, and has reinforced this principle as the overall guideline for its long-term development. Despite the considerable progress made so far, the Group will spend more efforts to further improve the major essentials to its long-term development, in particular those related to risk control and management. As an example, the Group will review the procedures for granting credit terms to customers, which will be standardised and subject to regular review so as to reduce the amount of doubtful debt. While the Group has substantially reduced its trade receivables and inventory during the second financial quarter, it will take stronger efforts in the second half of the financial year to further improve the ages of trade receivables and inventory, and to lower the overall level of overdue trade receivables and slow-moving inventory.

Looking ahead, the Group strongly believes that IT service is the future that the Group should pursue. While striving to maintain a rapid and healthy development for its distribution business, the Group will move forward with firm steps to transform into an IT services provider.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and Financial Resources

At 30 September 2003, the Group had total assets of HK$4,066 million which were financed by total liabilities of HK$2,822 million, minority interests of HK$5 million and shareholders' funds of HK$1,239 million. The Group had a current ratio of approximately 1.56 compared to that of approximately 1.6 at 31 March 2003 and approximately 1.52 at 30 June 2003.

At 30 September 2003, the Group had cash and bank balances and unsecured short-term bank borrowings of HK$520 million and HK$366 million respectively.

The aggregate interest-bearing debts as a ratio of shareholders' funds at 30 September 2003 was 0.74, as compared to 0.55 at 31 March 2003 and 1.03 at 30 June 2003. The increase of such ratio in the first financial quarter was due to the utilisation of bank borrowings to finance the increase of inventories and trade receivables. However, as a result of tightened financial management controls over inventories, trade receivables and cash flow in the second financial quarter, the situation was improved with the gearing position restored to a more satisfactory level.

The computation of the above ratio was based on the total interest-bearing borrowings of HK$912 million (31 March 2003: HK$761 million and 30 June 2003: HK$1,281 million) and shareholders' funds of HK$1,239 million (31 March 2003: HK$1,393 million as restated and 30 June 2003: HK$1,244 million).

At 30 September 2003, all the interest-bearing borrowings of the Group were denominated in United States Dollar. Part of the United States Dollar borrowings amounting to HK$366 million were short-term bank borrowings repayable within one year and guaranteed by the Company. The rest of United States Dollar borrowings amounting to HK$546 million represented the syndicated loan (the "Loan") repayable within four years counting from the date of the first drawdown.

Owing to the unexpected loss of the Group in the first financial quarter, certain debt related ratios as the Company would otherwise be required to maintain under the Loan were adversely affected but the Company has already obtained the written consent from the syndicate of banks on a temporary arrangement in relation to those affected ratios. Further details of the Loan are set out in the section headed "Practice Note 19 of the Listing Rules".

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Apart from the Loan, the Group has sufficient other financial resources, unutilised credit facilities and reserves to meet the funding requirements for its business operations.

At 30 September 2003, the Group's total available credit facilities amounted to HK$4,159 million of which HK$2,846 million was in trade lines, HK$767 million was in short-term and revolving money market facilities and HK$546 million was in transferable loan facility. At 30 September 2003, the facility drawn down was HK$1,316 million in trade lines, HK$156 million in short-term and revolving money market facilities and HK$546 million in transferable loan facility respectively.

Under the normal course of business, the Group has issued performance bonds to some customers for potential claims of non-performance in order to satisfy the specific requirements of these customers. As no material claims had been made by the customers under such performance bonds in the past, the management considers that the possibility of realisation of any actual material liabilities arising from such performance bonds is remote.

During the six months ended 30 September 2003, capital expenditure of HK$38 million was incurred in the construction of integrated and centralised research and development and management centre in Beijing and an automated warehouse in Shanghai and HK$81 million was paid to acquire an office building in Beijing to accommodate the Group's future growth. Apart from the above, capital expenditure spent on the regular acquisition of fixed assets was HK$24 million.

The management considers that the Group's financial position, together with its availability of sufficient unutilised credit facilities, will enable the Group to meet its anticipated future cash flow requirements.

Human Resources

At 30 September 2003, the Group had approximately 4,100 (30 September 2002: 3,500) full-time employees. The majority of those employees work in the PRC. The Group offers remuneration packages in line with industry practice. Remuneration of the Group's employees includes basic salaries and bonuses. The Group incurred total staff cost of approximately HK$171 million for the six months ended 30 September 2003 (For the six months ended 30 September 2002: HK$129 million). In order to attract and retain a high calibre of capable and motivated workforce, the Company offers share options to staff based on individual performance and the achievement of the Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.