

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Overall performance

The Group's operating results were significantly improved after the restructure of the Group's business in 2003. The turnover for the period ended 30 June 2004 increased by 3.8 times to approximately HK\$531.7 million (2003: HK\$111.5 million) and the gross profit for the period ended 30 June 2004 increased by 70% to approximately HK\$33.2 million (2003: HK\$19.5 million). The result improvement was mainly due to acquisition of the distribution of information products business ("Distribution business") which was completed in July 2003.

The loss attributable to shareholders for the period ended 30 June 2004 was approximately HK\$43.3 million (2003: HK\$206,000). The increase in loss was due to the impairment of goodwill of HK\$43.5 million. If the effect on impairment of goodwill of HK\$43.5 million was excluded, the Group's results for the period ended 30 June 2004 were turnaround and recorded a profit attributable to shareholders of approximately HK\$212,000 as compared to a loss of HK\$206,000 in 2003. The major improvement was mainly contributed by the segmental profit of Distribution business of approximately HK\$2.9 million.

Due to fierce market competition, the segmental loss of the provision of software solutions and services business ("Software business") increased by 74% to approximately HK\$3.6 million in the first half of 2004. Although the Group has taken tight measurements to reduce overhead expenses, the profit margins of Software business decreased due to strong market competition, and therefore resulted in loss making. As the results of Software business was unsatisfactory, there will be further scaling down of business both in terms of headcount and business units. In the light of continuous loss since the acquisition and further scaling down of Software business, it was determined that the carrying amount of goodwill of such business was impaired and therefore required to be written off in the income statement in accordance to the SSAP. As such, an amount of impairment of goodwill of HK\$43.5 million was recorded. As permitted under the previous SSAP requirements, the Group has previously written off such goodwill against the Group's consolidation reserves prior to the adoption of SSAP 30 in 2001. However, under the current requirements of SSAP, it is necessary to reflect in the income statement for the impairment of goodwill and reverse out the amount which was previously written off already in the Group's consolidation reserves. Such accounting treatment was made in order to comply with the presentation requirement of SSAP and the Group's total net assets were not affected nor being reduced from this impairment of goodwill.