

OPERATING REVIEW AND PROSPECTS

Continuing operations

(A) DISTRIBUTION BUSINESS

The turnover of Distribution business for the period increased by 63% to approximately HK\$503.7 million (2003: HK\$309.9 million) and the segmental profit increased by 93% to approximately HK\$2.9 million (2003: HK\$1.5 million). Since the Group completed the acquisition of the Distribution business (BJ Founder Century and Founder Century (Hong Kong) Limited) from its controlling shareholder, FHL, in July 2003, there is no comparative figures of Distribution business in the Group's segmental results as last year's interim results were included in the accounts of FHL.

The significant improvement was due to:

- a. increase range of products from suppliers such as 華為 3COM and HP;
- b. increase number of suppliers such as in March 2004, it was officially appointed by Apple as one of the distributors in the PRC for all its product lines and at the same time the sole distributor for the server and data storage products;
- c. expansion of distribution network and at present there are a total of 12 branch offices/representative offices (apart from the headquarter in Beijing): in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang and Xizang Zizhiqu; and
- d. tight control in operating cost, strengthen control in trade receivable and inventory level and effective financial management.

The Distribution business has established a solid reputation in its sector. For example, BJ Founder Century was awarded by the Computer Commercial Press (電腦商報) in June 2004 as the 6th Best Distributor among the top 500 distributors and also achieved the Best Improvement Award.

The Distribution business has delivered satisfactory results both in the turnover and the profit from last year. Through the expansion both in the products range and the distribution network, it is expected the growth can be sustained.

OPERATING REVIEW AND PROSPECTS *(Continued)*

Continuing operations *(Continued)*

(B) SOFTWARE BUSINESS

The turnover of Software business for the period increased by 4% to approximately HK\$28.1 million (2003: HK\$26.9 million) and segmental loss increased by 74% to approximately HK\$3.6 million (2003: HK\$2.0 million). The performance was affected by the fierce competition in the business and therefore narrowing down the profit margins of projects. The thin contributions from the projects were not enough to cover the overheads of this business and hence resulted in loss making.

As mentioned above, due to continuous loss of the Software business, there was an impairment of the goodwill which related to this business. As required by the SSAP, the impairment of goodwill was required to be reflected in the Group's income statement even though it has been written off against the Group consolidation reserves previously. The Group will take appropriate measures to further restructure the Software business as to reduce overhead costs and scale down the loss making business units.

Based on the past years accumulated experience and expertise in the field on e-finance, the Group will continue to concentrate on this sector to provide total solutions to financial institutions and commercial corporations for the services in developing treasury and fund control systems.

Discontinued operation

(A) ELECTRONIC PRODUCTS BUSINESS

The Group decided to concentrate the resources on information technology business and therefore disposed of the Electronic products business which was completed on 26 September 2003. As a result, there was no record of turnover (2003: HK\$84.6 million) and no record of segmental results (2003: profit HK\$2.2 million) for the period ended 30 June 2004.

Conclusion

After PRC's accession into the World Trade Organisation and running up of the Olympic Games of 2008 to be held in Beijing, it is expected the investments in the information technology sector will grow with a double digit compound annual rate in the coming years. Hence, it is expected the Group can benefit from it and continue to grow with the information technology sector in the future.

OPERATING REVIEW AND PROSPECTS *(Continued)*

Employee and remuneration policies

As at 30 June 2004, the Group had approximately 255 and 169 employees for the Distribution business and Software business, respectively. These employees of which almost all work in the Mainland China. The Company has also established share option schemes and the share options are granted at the Directors' discretion to motivate and reward the employees with outstanding performance.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 30 June 2004, the Group recorded total assets of approximately HK\$516.9 million (31 December 2003: HK\$457.9 million) which were financed by liabilities of approximately HK\$340.1 million (31 December 2003: HK\$281.8 million) and equity of approximately HK\$176.8 million (31 December 2003: HK\$176.1 million). The Group's net asset value as at 30 June 2004 was approximately HK\$176.8 million (31 December 2003: HK\$176.1 million).

The Group had total cash and bank balances of approximately HK\$127.9 million as at 30 June 2004 (31 December 2003: HK\$159.5 million). The Group had no bank loan and overdraft as at 30 June 2004 (31 December 2003: Nil), hence the Group recorded a net cash balance of approximately HK\$127.9 million as at 30 June 2004 (31 December 2003: HK\$159.5 million). As at 30 June 2004, the Group's current ratio was 1.41 (31 December 2003: 1.50) and the Group had no long term debt as at 30 June 2004 (31 December 2003: Nil).

As at 30 June 2004, the Group did not have any material capital expenditure commitments (31 December 2003: Nil).

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and United States dollars.

Contracts

As at 30 June 2004, the major contracts in hand for Software business amounted to approximately HK\$10 million, which are all expected to be completed within eighteen months.

Charges on assets

As at 30 June 2004, bank deposits of approximately HK\$23.5 million were pledged to banks to secure general banking facilities granted.