

## Management Discussion and Analysis

### FINANCIAL REVIEW

The turnover of the Group for the current period was HK\$125,890,000 and the turnover for the same period last year was HK\$57,164,000 only. The gross profit of the Group for the current period was HK\$55,107,000 and the gross profit of the Group for the same period last year was HK\$10,323,000. The turnover and gross profit for the current period showed a 2.2 times and 5.3 times increase respectively. The increase was mainly due to the contribution from HL95 which was proportionate consolidated into the Group's consolidated profit and loss account in the current period.

The results of the Group turnaround from a loss of HK\$8,260,000 in the same period last year to a profit of HK\$11,642,000 for the current period. The major reasons were as follows:

- (1) Contribution of HK\$11,361,000 net profit from HL95.
- (2) With the support of a substantial shareholder, Uni-Tech International Group, a long outstanding debts of HK\$10,000,000 from a former joint venture partner was recovered. Since the debts was fully provided for in the previous year, the recovery resulted in an income of HK\$10,000,000 for the period; and
- (3) Certain long outstanding payables were being written off resulting in a gain of HK\$5,250,000.

### SIGNIFICANT INVESTMENTS AND CAPITAL EXPENDITURE

In June 2004, approval from relevant government authorities on the acquisition of an additional 4% of HL95 was obtained. The consideration of HK\$3,028,000 was paid and the Group's equity interest in HL95 increased from 45% to 49%.

On 20th September 2004, the Group entered into a sale and purchase agreement with CITIC Group to acquire 30% equity interest in Dongfang Customs Technology from CITIC Group. The consideration amounted to RMB59,806,000 (equivalent to HK\$56,421,000) will be settled with cash upon completion. The completion of this acquisition is subject to the approval from the relevant government authorities which is currently in progress.

### FINANCIAL RESOURCES AND LIQUIDITY

With proportionate consolidation of HL95, the total assets of the Group as at 30th September 2004 was HK\$372,286,000 which was financed by shareholders' fund of HK\$230,192,000, current liabilities of HK\$134,928,000 and minority interest of HK\$7,166,000. The current ratio of the Group as at 30th September 2004 was 2.3.

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After two placements completed in last year, the Group financial resources continued to be strong to meet its future working capital requirements and development. At 30th September 2004, the Group had cash and bank balances of HK\$189,244,000 in which HK\$28,957,000 was the portion attributable to the Group in HL95. HK\$1,057,000 fixed deposit with deposit period over 1 year was pledged to bank to issue a letter of guarantee at 30th September 2004 and HK\$5,000,000 fixed deposit was pledged to secure a short term bank loan.

The total outstanding bank loans as at 30th September 2004 was HK\$31,230,000. All bank loans are denominated in Renminbi and were borrowed in China and repayable within one year. HK\$3,962,000 (equivalent to RMB4,200,000) of which was utilized by the system integration and software development business and was secured by bank deposits of HK\$5,000,000 mentioned before. The remaining balance of HK\$27,274,000 (equivalent to RMB28,910,000) was the portion of loan attributable to the Group in HL95 and was guaranteed by the other shareholder of HL95. The gearing ratio as a whole, calculated by the bank borrowings over the shareholders' funds, was 13.57%.

The Group's transactions and cash and bank balances are mainly denominated in Hong Kong dollars and Renminbi. The Directors consider that Renminbi is stable and the exposure to exchange fluctuation is minimal.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30th September 2004, the Group, excluding the jointly controlled entity, employed a total of 126 full-time employees, of whom 12 were working in Hong Kong and 114 were in Mainland China. The total number of full-time employees of HL95 as at 30th September 2004 was 1,898 and all of them was working in Mainland China. Total staff costs of the Group for the period were HK\$27,268,000 in which HK\$17,373,000 was the portion attributable to the Group in HL95. All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

Employees are awarded by reasonable and competitive remuneration on a performance-related basis to motivate employees to provide greater contribution to the Group. The Group has also set up a share option scheme pursuant to which employees of the Group may be granted options to subscribe for the Company's shares. During the period, share options to subscribe for 24,000,000 shares were granted at the exercise price of HK\$1.23 per share.