DIVISIONAL OPERATIONS HIGHLIGHT

Integration Services

The results on the Integration Services division have been improved substantially in the second half of the reporting period. Although its revenue has dropped from the previous year, the division has managed to improve its gross margin and profit contributions that primarily due to the increases in service contents of the related contracts.

The division has been receiving strong repeated businesses from enterprise customers in finance and manufacturing industries in Mainland China. Leveraging strong customer reference and partnership, the Group has managed to capture long-term maintenance services business from its existing customer base and to expand its coverage in new customers within the related industries such as broker companies through relationship with the Shanghai Stock Exchange. With the strong proven track records and a stable organization the division will be able to capture business from customers in Mainland China with growing demand for high quality services. It is anticipated that the division will continue to contribute profits to the Group with stable growth.

Solutions Services

During the reporting period, the Solutions Services division has completed the construction phase of the two large-scale solutions outsourcing contracts from the HKSAR Government ("Government Projects"), namely the Integrated Registration Information System ("IRIS") for the Land Registry (the "LR") and the Customer Care and Billing System ("CCBS") for the Water Supplies Department (the "WSD"). Among them, the official roll out of IRIS in February 2005 is described by the Secretary of Finance in his latest budgetary speech as a major e-government achievement that assist to create a more user-friendly business environment in Hong Kong.

Towards the end of the development phase, the revenue that is generated from the Government Projects declined significantly compared with previous year and it has impacted the overall revenue of the Solutions Services division to drop by about 55%. In addition, the division has experienced unforeseen delays in completing these Government Projects and hence has incurred additional project delivery costs that also have adversely impacted the overall performances of this division.

Apart from serving repeating contracts from the LR and the WSD, the division has managed to expand its service coverage to other departments of HKSAR. With the enlarged customer base and the completion of the construction phase of IRIS and CCBS, the division will be able to benefit from the higher margin multi-year outsourcing service contents and improve its performance significantly.

In addition, the division is in the process of strengthening its the control on delivery processes and is aiming to adopt international quality models to ascertain its production quality and management efficiency.

Application Services

Electronic Applications

In early 2004, the Group has successfully launched the Government Electronic Trading Services ("GETS") for the provision of e-business services to the trading community with services related to the submission of Import/Export Declaration (TDEC).

By strategically allying with major logistics operators in Hong Kong, the Group has rapidly built up its business momentum as well as sales and servicing channels in a cost-effective manner. In addition, the focused sales and marketing effort in major accounts and the Paper-to-Electronic Conversion Services ("PCS") have proved to be effective in capturing market share while maintaining a healthy margin.

On the other hand, the investment from The China Fund Inc., an independent third party investor, has provided additional resources in accelerating the division's growth in its start-up stage. As in December 2004, the Group has achieved a market share in excess of 5% with more than 80,000 submissions.

In the coming year, the division will focus to further expand its GETS market share. The management will continue to expand its sales and servicing channels through strategic partnership and to strengthen its scope of services in PCS and in the small and medium-sized enterprises market. Additional value-added services will also be launched to attract new customers and to create more income stream from the existing customer base. The management is optimistic that the division will accelerate its growth rate and to reach a critical mass with profit contribution to the Group.

Enterprise Applications

During the reporting period, the Group has managed to expand its business in terms of revenue, profit contributions to the Group as well as market position towards large enterprise clients.

In 2004, the Group has launched a number of new solution offerings. In particular, the Employee Self-Services ("ESS") modules enable our clients to empower and facilitate its employees to process routine human resource ("HR") related business processes (e.g. MPF enquiry, leave application, expense claim, etc.) through Internet in self-service manner which improve the overall corporate efficiency in administering those HR processes. The functions of ESS modules that extended the usage of Human Resource Management System ("HRMS") beyond HR department into the entire enterprise have been well received by the market and hence have attributed to the growth of the business.

During the reporting period, the Group has obtained a number of significant contracts from multinational corporations for HRMS across the region. The increasing number of installations and size of the HRMS projects provide the Group with stable and growing sources of software license income as well as related maintenance income.

Distribution

The Distribution division of the Group has recorded a decrease in revenue primarily due to the slow down in demands for the video capturing and editing products distributed by the Group. The management is aggressively identifying new product lines to boost sales and to improve the division's results. The enlargements of the business footprint in Mainland China will also enhance the division's economy of scale and operation efficiency.

FINANCIAL HIGHLIGHTS

Results

For the year ended 31 December 2004, the consolidated revenue of the Group is HK$251,800,000 (2003: HK$362,136,000) or a decrease of approximately 30.5%. The net profit attributable to shareholders is HK$4,322,000 (2003: HK$6,066,000) or a decrease of approximately 28.8% and the basic earnings per share is 1.57 Hong Kong cents (2003: 2.21 Hong Kong cents). The Solutions Services division has mainly caused the drops in revenue and net profits and the reasons are explained in the previous section.

The Group's gross profit margin for the year has been increased to 25.2% from the previous year of 21.0%. The percentage increase has confirmed the effects on the Group's business transformation toward the earning of higher profit margin services revenue.

Liquidity and Financial Resources

As at 31 December 2004, the Group's cash and bank balances (excluded pledged bank deposits of HK$23,836,000) amounting to HK$98,050,000 when compared with HK$101,441,000 as at 31 December 2003, represented a slight decrease of 3.3%. The net cash outflow is mainly caused by the unforeseen delay in project deliveries of the Government Projects. However, in early of 2005, the Group has large cash inflows, in particular payments from the LR and the WSD amounting approximately HK$81 million and has fully repaid the bank borrowings of HK$15,000,000. As a result, the Group's cash and bank balances (excluding pledged bank deposits) as at 31 March 2005 is approximately HK$146,450,000, which has been increased by 49.4% as compared with 31 December 2004 position.

As at 31 December 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of net current assets, has been decreased to 5.9% from 14.9% as at 31 December 2003. The borrowings are denominated in Hong Kong dollars. In view of the structure and the duration of the borrowings, Management considers the exposures to interest rate and foreign exchange fluctuations are insignificant and no hedging measures are required. As mentioned above, the Group has in early of 2005 fully repaid the borrowings, therefore, as at the current date, the Group has no borrowings.

Pledged Assets

As at 31 December 2004, the Group's fixed assets of HK$10,000,000 (2003: HK$8,500,000), deposits of HK$23,836,000 (2003: HK$43,969,000) and the held-to-maturity securities of HK$1,265,000 (2003: HK$8,565,000) are pledged to secure general banking facilities and performance bonds/guarantees to the customers.

Contingent Liabilities

As at 31 December 2004, guarantees given to banks by the Company for performance bonds issuance by the banks in relation to services contracts undertaken by the Group amounting to HK$58,320,000 (2003: HK$66,120,000) of which HK$21,789,000 (2003: HK$40,582,000) had been utilised.

Employee and Remuneration Policies

As at 31 December 2004, the Group has employed approximately 300 full time and 63 contract-based employees (2003: 271 full time and 139 contract-based employees) in Hong Kong, Mainland China and elsewhere. Employees' remuneration is in accordance with individual's responsibility and performance and remains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, pension funds, etc., are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of share option schemes of the Company and certain subsidiaries that were approved and adopted on 30 May 2002 and 1 July 2000, respectively. During the year, a total of 2,772,000 shares options of the Company are granted to the employees. As of 31 December 2004, 5,573,000 of the Company's option shares granted to the employees are not exercised.