



1. Ms. Wang Feixue, the Chairman of the Group elaborated the highlights of the Group's investments on the Investors Presentation luncheon.
2. The Group was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 18 November 2004.
3. Zhongguanchun Committee and Changping District Government have held a celebration party for the successful listing of the Group.
4. The Group has been honoured as one of the companies in the 2004 Deloitte Technology Fast Growth 500 Asia Pacific program, which was received by Ms. Wang Feixue, the Chairman and Ms. Lee Wing Sze, Rosa, the chief financial officer of the Company.
5. The Company's listing on the Main Board has been reported by the "Capital" magazine.
6. Ms. Wang Feixue, the Chairman of the Group, received an interview by the "Capital CEO" magazine.

LISTING ON THE MAIN BOARD

The Group was successfully listed on the Main Board of the Stock Exchange (stock code: 2371) on 18 November 2004 (collectively referred to the "Listing"). After deducting the relevant expenses, the net proceeds was approximately HK\$40,500,000. The proceeds will be applied as set out in the prospectus dated 8 November 2004 (the "Prospectus"), and the outstanding amounts are currently deposited with banks in Hong Kong and the PRC as short-term deposits.

FINANCIAL REVIEW

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB108,226,000 (2003: approximately RMB92,197,000), representing an increase of approximately 17.4%. Of these, turnover derived from the sales of self-developed software was approximately RMB38,635,000 (2003: approximately RMB32,477,000), representing an increase of approximately 19.0%. Gross profit margin in respect of the sales of self-developed software even increased significantly to 79.3% from 74.4% of last financial year. Turnover from sales of third party software and hardware in relation to system integration has increased from last year's approximately RMB48,019,000 to this year's approximately RMB55,543,000. Turnover from system integration and other services increased from approximately RMB11,701,000 from last financial year to approximately RMB14,048,000 this year.

Although in 2004 the Group recorded a growth of approximately 17.4% in the turnover over last year, the management were still very prudent on the control of the Group's sales cost and management expenditures. Therefore, the Group's sales and administrative expenses could be maintained at approximately RMB17,052,000, as compared with approximately RMB13,819,000 in 2003.

Due to the increase in the Group's total income and the relatively stable operating and administrative expenses in 2004, profit attributable to shareholders increased to approximately RMB28,524,000 (2003: approximately RMB25,347,000), representing an increase of approximately 12.5% over last year. Basic earnings per share was approximately RMB9.14 cents (2003: RMB8.45 cents), representing an increase of approximately 8.2% over last year. As at 31 December 2004, the Group had cash in hand of approximately RMB90,953,000.

The Board of Directors recommended distribution of a final dividend of HK1.7 cents for the year ended 31 December 2004.



Management Discussion and Analysis

BUSINESS REVIEW

The Group provides OSS self-developed software products and one-stop integration services to the telecommunications service providers. Our business includes sales of self-developed software, provision of system integration using mainly our self-developed software, as well as provision of maintenance, training and after-sales services. The current end users of the Group's OSS products and solutions are the four major PRC infrastructural telecommunications service providers, including the China Mobile Group. The Group has also begun to expand its business to include the enterprise and private network operators.

During the year under review, the Group successfully completed the annual operation target, and recorded a turnover of approximately RMB108,226,000, with a net profit of approximately RMB28,524,000. We have obtained outstanding results both in the exploration of PRC mobile business and cooperation with the strategic partners. In the integrated transmission network management market, the Group was successfully rated as one of the three appointed providers by a telecommunications service provider. Currently, the Group ranked among the Top Three OSS products and solutions provider in terms of market share in the network management segment by the China Mobile Group. There are currently over 40 projects in progress, about half of which completed first-off testing, on top of this, about ten provincial phase II projects have been initiated.

In respect of the sales of self-developed software, during the year under review, the Group has completed the agreement with the China Mobile Group in respect of its proprietary Objective Management Platform middleware (which has successfully passed the preliminary assessment for the invention patent), opening a new era for the sales of self-developed software, and has also realised the overall upgrading of its core self-developed software, the E2E VIEW series, and at the end of 2004, the development of E2E VIEW 2.0 for large research projects was formally accepted internally. At the same time, in the collaboration operations with strategic partners, the Group also coped with the changes in market demands, and developed in time a number of proprietary application products, and with the increase in the proportion of the Group's investments on the self-developed software and sales and market development from year to year, the sustainability of the Group's profits will be further enhanced.

In respect of the system integration and other service segment, following the expansion of the Group's market share in the operator customers such as China Mobile Group, the amount of system integration service contracts increased steadily, in which the Group also strategically increased its investments in services, with a historical breakthrough in respect of network optimisation engineering services, and continued to be dedicated in the enhancement of services and construction of a professional engineering service team. Increase in the sales of third party software and hardware during the year was also in line with the expansion of the Group's total sales.

In respect of management, the Group successfully passed the assessment of CMMI Level III, which indicated that the Group's software development and integration management have been upgraded to a new level. In 2004, the Group has overall upgraded the product framework design in respect of all network category, all network management function and new generation network.

CUSTOMERS

The Group's customers comprise the four major infrastructural telecommunications service providers, including the China Mobile Group, covering 31 provinces and municipalities in the PRC, as well as private network operators. The Group has always been maintaining a good relationship with the customers and have cooperation with the major strategic partners, including international telecommunications equipment providers, as well as domestic and international reputable system integrators and software providers. The Group has started to provide solutions to private network operators (such as the insurance industry), and has obtained satisfactory results.

During the year under review, the Group's market development in cooperation with strategic partners has obtained new breakthrough, and both parties have reached a cooperation consensus in 3G products. In respect of the R&D of 3G products, the Group has completed development of prototypes of a number of such products, and on the transmission integrated network management market, the Group has also successfully implemented the phase I engineering on the transmission integrated network of a certain provincial project for China Unicom Group and has achieved a breakthrough in the provision of the transmission network management product.

PRODUCT DEVELOPMENT

The Group's OSS products and solutions comprise five series, which are Element Management System, End-to-End Service Assurance Series (E2E VIEW), End-to-End Service Provisioning Series (E2E EASY), End-to-End Value-Added Series (E2E VAS) and 3G product series. The Group has developed and registered about 30 different types of products since its establishment covering 10 among the 15 functional modules in the Telecom Operations Map Model ("TOM Model"). In fact, the Group has recently overall adopted the latest e-TOM model of Telecommunications Management Forum in its product planning. The Group has enhanced the strength of the scientific research department through the training of its existing R&D staff and enhancing their working efficiency. Total number of R&D staff has increased from 149 in 2003 to 202 in 2004.

SALES STRATEGIES

The Group has strategically selected its operation locations to be neighboring to its existing and potential customers. This enables the Group to better understand the needs of its customers and provide timely services, thereby enhancing the degree of satisfaction of the customers. Up to date, the Group has set up offices in Guangzhou and Shanghai in the PRC, with the aim at maintaining close relationship with the infrastructural telecommunications service providers in the Southern and Eastern China respectively.

The Group's marketing departments in Beijing, Shanghai and Guangzhou in the PRC are mainly responsible for the overall marketing strategies, promotion, competitor analysis, exploration of new customers, development of new business, provision of technical support to the sales team and provision of customer services. In addition, the Group's sales department in Beijing, the PRC, mainly responsible for the sales, negotiation, coordination and finalisation with customers, and provision of engineering services and conducting promotion activities. Currently, the Group's sales and marketing team has about 40 staffs.



PROSPECTS

Following the entry of the PRC into WTO, the telecommunications sector in the PRC was further liberalised and this provides more business opportunities to domestic and overseas players. On a National Information Industry Working Meeting held in January 2005, MII for the first time indicated that the strategic proposal for the development of the Third Generation Mobile Communication ("3G") in the PRC will be announced in some appropriate time this year.

According to the research report of CCID Consulting Company Limited ("CCID"), the expected market size for OSS software in 3G from the first year to the sixth year of launch, would be growing at a CAGR of 33.5%. The Group has been dedicating in the R&D on 3G OSS related products and training of high caliber staff since the fourth quarter of 2002. Therefore, the development of 3G and the industrial changes brought along with it will only bring positive impact to the Group. Firstly, it will bring about more new opportunities in the exploration of the Group's own business and in the collaborations with its cooperation partners, which will be helpful for the Group to find new business growth points. Secondly, development of 3G will also bring about opportunities to the new integrated network management products which the Group has been dedicated in the R&D and has completed its initial development.

However, we are also aware that the overall renewal of the communication technology and the extensive application of 3G technology will inevitably affect the profit distribution of the entire industry, and will also bring about new opportunities to companies which was equipped with certain technological characteristics and having certain technological and leading advantages in the New Generation OSS sector. As a result, the Group will face a more intense competition. Development of 3G business will certainly change the Group's sales income structure, and may bring a growth to the income.

Following the surge in the economy of the PRC and the continued deepening in the informatisation, demands for private network management from industries and enterprises having large network systems are also growing strongly. The Group has set down foundation in respect of the OSS software provided for application by private network operators, and is currently proceeding to the market exploration in the sector for the application of the Group's OSS software. The Group will obtain further success in the future with its foundation set in 2004.

Through its persistence in the strategic planning of product operations and sustainable technological innovations, the Group has continued its R&D in the new version of E2E VIEW and E2E EASY series of products, and has overall initiated the R&D in E2E VAS series of product, fully upgraded the OSS product framework design in respect of all network category, all network management function and new generation network in 2004, and we will realise the development of the Group's integrated network management product in 2005 base on such framework. The Group will strive to maintain its technologically leading strategic position in the new round of technological competitions. With the further promotion of the network management platform middleware products and the project implementation of the phase II market of mobile network management, the Group will at the same time complete the development and upgrade of its Core Activate Platform through the joint development with more strategic partners.

The Group is currently seeking for further cooperation with its existing long-term strategic partners to jointly develop new products and explore new markets. At the same time, the Group will also seek for cooperation opportunities with new overseas reputable telecommunications operators both in product and technological development, and there are already some projects under the pipeline. In respect of telecommunications integration service provider, the Group will conduct strategic cooperation with related integration service provider for the joint development of the market based on the characteristics and advantages of its own products, striving for a win-win situation.

In 2005, while further elaborating its products portfolio and services, the Group will also focus on the exploration and expansion of its sales channels in this year according to its strategic plan. In respect of market objectives, the Group will continue to develop the existing markets, and seek for opportunities for expansions into other key industries and large enterprise network management application market. In respect of product objectives, the Group will emphasise on product upgrading on certain major product lines, including element management products, data products, resources management middleware, integrated network management products and 3G products, and further expand the sales of self-developed software products, and strengthen the competitiveness of its core products. In respect of management objectives, priority shall be given to the four major objectives of "Specialisation in R&D", "Product seriation", "Engineering standardisation" and "Refinement of management", so as to promote the in-depth implementation of the CMMI Level III assessment passed by the Group in 2004.

Based on the principle of "reduce costs, enhance efficiency", the Group will be able to maintain the steady growth of per capita production rate in 2005. The Group will increase the recruitment of graduates and post-graduates and at the same time, through resorts such as enhancing long-term incentives, upgrading the vocational development plans for key staff, stabilise the core team, and make timely adjustments and elimination of unqualified staffs who are unable to satisfy the requirements for the Group's development, which will gradually adjust and optimise the staff structure, enhance the average quality of the staff team and thereby significantly enhance the Group's operation efficiency in future.

The Group's listing on the Main Board of Hong Kong Stock Exchange has greatly consolidated its financial situation and enhanced its publicity, enable the Group to develop and expand its products and services. The Group's future outlook will continue to strive to become a world renowned and PRC's leading OSS products and solutions provider and on the basis of providing industrial leading products and solutions, to create maximum commercial values to its customers, and bring the best interests to its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and the balance of proceeds from the Placing and IPO (collectively referred to "Share Offer").

As at 31 December 2004, the Group had cash and cash equivalents of approximately RMB90,953,000 as compared to the cash and cash equivalents of approximately RMB42,258,000 million as at 31 December 2003, after taking into account of the approximately HK\$40,500,000 net proceeds from the Share Offer and payment of the 2003 dividend to the then shareholders of the Group's subsidiary.



Management Discussion and Analysis

The Group's net current assets totalled approximately RMB110,049,000 as at 31 December 2004, against approximately RMB39,399,000 as at the end of the previous financial year. Current ratio improved significantly from last year's approximately 1.5 to approximately 4.8 this year mainly due to receipt of the net proceed from the listing.

The Group's trade receivable turnover as at 31 December 2004 was 127 days which has improved when compared to the 133 days as at 31 December 2003.

The Group's shareholders' funds increased by approximately RMB71,513,000 to RMB123,522,000 as at 31 December 2004 as compared to RMB52,009,000 as at the end of the previous financial year.

GEARING RATIO

As at 31 December 2004, the Group did not have any long-term debts while its shareholders' funds amounted to approximately RMB123,522,000. In this regard, the Group holds a net cash position with nil gearing ratio (net debt to shareholders' funds) as at 31 December 2004.

CAPITAL STRUCTURE

The shares of the Company were listed on the Main Board of the Stock Exchange on 18 November 2004. There has been no change in the capital structure of the Company since the Company's Listing. The capital of the Company comprises only ordinary shares. The Company and the Group have no borrowings or long-term debts.

MATERIAL ACQUISITIONS AND DISPOSALS / FUTURE PLANS FOR MATERIAL INVESTMENT

Apart from the Group's reorganisation to rationalise its structure in preparation for the Listing details of which had been set out in the Prospectus, there have been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for material investments or material acquisitions of capital assets other than those set out in the Prospectus.

SIGNIFICANT INVESTMENT

As at 31 December 2004, the Group did not have any significant investments.

USE OF PROCEEDS FROM SHARE OFFER

The proceeds from the Listing were approximately HK\$40,500,000, net of the relevant expenses. Such will be applied as set out in the Prospectus. To the extent any proceeds were not applied, they are placed in banks in Hong Kong and the PRC as short term deposits.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in Renminbi and Hong Kong dollars. Risk on exposure to fluctuations in exchange rates should be minimal as there is no material fluctuation in the exchange rate between Hong Kong dollars and Renminbi.

CHARGES ON GROUP ASSETS

As at 31 December 2004, the Group did not have any charges on its assets.

CONTINGENT LIABILITY

As at 31 December 2004, the Group did not have any significant contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group has 269 employees (2003: 210) working in the PRC. Total staff costs, including the directors' emoluments, amounted to approximately RMB19,134,000 (2003: approximately RMB14,438,000). The Group remunerates its employees on their performance, experience and prevailing industry practices. We are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.