

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group was principally engaged in four business segments, namely (i) provision of system integration services; (ii) development of customised software products; (iii) sale of software and hardware products; and (iv) provision of maintenance and other services.

### FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2004 was RMB114,956,000, representing an increase of 5.1% from RMB109,395,000 of last year. This was mainly attributable to the growth in revenues from the sale of hardware and software products as well as the provision of maintenance and other services.

During the year, the Group reduced the selling prices of its hardware and launched a number of marketing activities in a bid to attract more new customers. Although the overall gross profit margin fell by 5.4 percentage point from last year to 44.4% and the net profit also decreased by 24.4% to RMB34,901,000 as a result, the Group saw substantial improvement in its product and overall competitiveness, laying a solid foundation for its future success.

### BUSINESS REVIEW

#### Analysis by Business Segment

The following is an analysis of the Group's turnover for the year ended 31 December 2004 by business segment:

	For the year ended 31 December			
	2004		2003	
	RMB'000	%	RMB'000	%
Provision of system integration services	58,891	51.2	77,375	70.7
Development of customised software products	12,734	11.1	18,141	16.6
Sale of software and hardware products	27,047	23.5	12,632	11.6
Provision of maintenance and other services	16,284	14.2	1,247	1.1
Total	<u>114,956</u>	<u>100.0</u>	<u>109,395</u>	<u>100.0</u>

During the year, sales from the provision of system integration services remained to be the Group's primary source of revenues and accounted for approximately 51.2% (2003: 70.7%) of the Group's total turnover. The second largest sales contribution came from the sales of hardware and software products, which accounted for approximately 23.5% (2003: 11.6%) of the Group's total turnover. Meanwhile, turnover from the provision of maintenance and other services and development of customised software products accounted for approximately 14.2% (2003: 1.1%) and 11.1% (2003: 16.6%) of the Group's total turnover respectively.

In 2004, the reform of the RCC sector took place in a number of provinces. Their information networks were upgraded from the local or municipal scale to the provincial scale. Nevertheless, the market demand for relevant products suffered a momentary drop in 2004, owing to the fact that the planning and development for RCC information networks are a rather lengthy process. Accordingly, there was a decline in the Group's revenues from the provision of system integration services and development of customised software products during the year. In view of the accelerating pace of development of the Hubei project and the increasing number of projects to be implemented, it is expected that the revenue from this business segment will rise next year.

## MANAGEMENT DISCUSSION AND ANALYSIS

As the Group's customer base is continuously expanding, there are also an increasing number of corporate customers purchasing hardware and software products through the Group. During the year, sales generated from this business segment was approximately RMB27,047,000 (2003: RMB12,632,000), representing an increase of 114% from the previous year.

In general, products sold by the Group are offered one-year free warranty. After expiry of the warranty, maintenance fees will be charged by the Group based on the product nature and the complexity involved with reference to the technological standards on the customer side. In 2004, as the number of customers with expired warranty increased, the turnover generated from the provision of maintenance and other services rose substantially to RMB16,284,000 (2003: RMB1,247,000), accounting for approximately 14.2% (2003: 1.1%) of the Group's total turnover for the year. It is believed that as the customer base continues to expand, this business segment will become another crucial and stable source of revenues of the Company.

### Analysis by Geographic Segment

During the year, Shandong Province generated a turnover of approximately RMB41,425,000 and continued to be the primary revenue center of the Group. Up to date, construction of the first generation RCC information network in Shandong Province has largely been completed. Currently, the Group is preparing the development of the next generation systems for the province. Given that all RCCs in Shandong Province are using the systems from the Company, it is believed that their future demand for new purchases, system maintenance, function upgrades, software development and procurement will bring a steady stream of income to the Group. In 2004, revenues from the sale of hardware and software products and the provision of after-sale IT maintenance services in Shandong Province already reached approximately RMB28,908,000.

In 2004, the Group was awarded the project to construct the provincial RCC information network for the Hubei Province. In July, the relevant contract was entered into with Hubei Province. The project is expected to last around two to three years. During the year, the Hubei project contributed to the Group a revenue of over RMB26,774,000, representing more than 23% of its total turnover. We expect that the Hubei project, if progressing smoothly, will generate a considerable revenue to the Group in the next two financial years.

During the year, the Group also completed construction of the information network linking RCCs in a city of Hebei Province. We believe that the city is one of the cities with the largest scale of RCCs in the province. The success of this project is beneficial to the Group in bidding the provincial RCC projects in Hebei Province in future. During the year, the Group also provided system integration and upgrade services to RCCs in two cities of Guangdong Province, effectively expanding the Group's presence in Guangdong Province, the largest RCC market in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Analysis of the Turnover by Customer Type

The following is an analysis of the Group's turnover for the year ended 31 December 2004 by customer type:

	For the year ended 31 December			
	2004		2003	
	RMB	%	RMB	%
Banking and finance sector				
– RCCs	89,771	78.1	99,399	90.9
– non-RCCs	695	0.6	25	0.1
Non-banking and finance sectors	24,490	21.3	9,971	9.0
Total	114,956	100.0	109,395	100.0

In 2004, the Group's revenues were mainly derived from the provision of total business solutions and relevant services to RCCs, which accounted for approximately 78.1% of the Group's total turnover (2003: 90.9%).

In respect of industries other than the banking and finance sectors, the Group successfully launched its power and wireless application software in the year. The power application software is used for the enhancement of the service quality of power grids, while the wireless application software is used to monitor the operation efficiency of traditional labour-intensive activities, such as wireless meter reading for urban utilities, including water, electricity and gas, and data collection of oil fields and the water and power supply industries. In 2004, the revenues generated from these two products were approximately RMB7,000,000, a very encouraging result.

## FUTURE OUTLOOK

We believe that the reform of the RCC sector is ushering in a huge market for the financial software and system industries. There are unlimited opportunities lying ahead for the Group. In the coming years, various provinces will finalize plans for construction of their RCC information networks, followed by moves to look for system suppliers. Such a backdrop will lead to an unprecedented growth in the demand for financial software, systems and relevant products. With the experience gained through constructing Shandong Province's RCC information network, we believe that the Group was highly competitive in the market. Riding on the reform of the PRC's financial industry and our experience and expertise in such undertakings, we believe that the Group will be able to occupy an even more important position in the financial software market.

In respect of industries other than the banking and finance sector, the Group will continue to actively develop products with high growth potential and attractive gross profit margin. In the long term, we hope to develop a more diversified line of products to create more growth drivers with a steady stream of income.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDEBTEDNESS

During the year, the Group issued convertible notes with a principal amount of approximately RMB32,903,000. On 17 September 2004, the aggregate amount of the principal and accrued interest of these convertible notes was converted into 39,691,267 shares in the Company at HK\$0.80 per share, being the final price of the shares issued by the Company for subscription under its initial public offer.

Save as aforesaid, the Group had no other debt securities in issue, outstanding or authorized or otherwise created but unissued, and the Group had no term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptances credits, finance lease commitments, mortgages or charges, guarantees or material contingent liabilities.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirements are primarily working capital requirements related to the sale of hardware and software products and costs associated with business expansion, such as research and development and sales and marketing expenses. The Group historically financed its operations and investing activities primarily by operating revenue and internal resources.

As at 31 December 2004, the Group had cash and bank balance of RMB105,015,000 (2003: RMB68,143,000). The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was zero (2003: zero).

### FOREIGN EXCHANGE

Since the Group's revenues from the sale of products and its purchases of materials, components and equipment are mainly received or paid in RMB, the Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.