Management Discussion and Analysis

REVIEW OF OPERATIONS

For the reporting period, the Group's overall gross profit was substantially increased to HK$78.9 million (2004: HK$63.5 million) despite the overall revenues dropped by 15.5% to HK$212.9 million which was primarily due to the completion of the construction phases of two large scale solution outsourcing contracts. The increase in gross profit was mainly attributed by the improvement in gross profit margin as well as the increased revenue contribution from the Application Services which grew 57.8% to HK$48.5 million (2004: HK$30.8 million).

Following the Group's direction in business transformation, the revenue nature of the integration services business had been migrated from hardware oriented to increasing service oriented. Such migration had led to both the business model and the revenue nature of the integration service and the solution services are alike. Therefore, for the purpose of more meaningful presentation, the Group had decided to combine the Integration Services and the Solution Services segments into Solutions & Integration Services segment effective from this reporting.

During the reporting period, the Group received strong repeat orders from existing customers such as Shanghai Stock Exchange ("SSE"), China Eastern Airline, China Pacific Insurance, Shanghai Volkswagen, Shanghai Pudong Development Bank as well as various departments of the Hong Kong SAR Government ("Hong Kong Government"). Besides, the Group also managed to secure major contracts from new customers such as Yunnan Province Government in China and receive additional orders from various departments of the Hong Kong Government, including the development of the official website for the WTO Ministerial Conference (MC6) which was successfully held in Hong Kong last December.

The Group also entered into a partnership agreement with Shanghai Stocom Communication Co., Ltd. ("STOCOM"), a subsidiary of SSE, to develop and co-market an integrated stock information broadcast and management platform ("Platform"). Such Platform will be promoted by STOCOM to the SSE's broker members. It is anticipated that the progressive rollout of the Platform will gradually develop another stable source of income to the Group.

The Group's e-Services business doubled its revenue contribution during the reporting period when compared with 2004. The results were mainly contributed by the steady development of the Group's Government Electronic Trading Services ("GETS") and other related value-added services. Currently, the Group has more than 10,000 registered users for its e-Service businesses. To further capture market share and enlarge income base, the Group has been launching a series of promotional campaign on GETS and other e-Services to recruit additional customers and to create additional revenue from existing customers. Furthermore, the Group is also actively exploring opportunities to expand its e-Service offerings into the China market.

Management Discussion and Analysis

Benefiting from the general growth of the economy and the increasing multinational corporation ("MNC") establishments in China, the Software and Maintenance income generated from the Group's own branded Human Resource Management Software ("HRMS") continued to record satisfactory growth. After years of development, the Group's HRMS has become a popular choice of management application among large corporations with presence in both Hong Kong and China. In particular, three of the Big Four international audit firms are users of the Group's HRMS. Large conglomerates such as the Jardine Matheson Group also selected the Group's HRMS for their group subsidiaries. Last but not least, the Group's HRMS are also well received by large MNCs such as Sony and Philips.

The Group's distribution business continued to be adversely impacted by the weak demands on its core product lines related to the video capturing and editing products. The Management has expanded new product lines in video surveillance and media player with emphasis on home entertainment sector to enlarge the revenue stream.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2005, the Group's bank balances and cash (excluded pledged bank deposit of HK$8.0 million) was HK$171.8 million or increased 75.1% compared with HK$98.1 million as of 31 December 2004..

Approximately 77.5% of the Group's on hand funding is in Hong Kong or US currencies. The Group has not adopted any hedging policies, as both currencies carry no or low exchange fluctuation risks.

During the reporting period, the Group has also fully repaid the interest-bearing bank borrowing of HK$15 million. As a result, the gearing ratio, measured on the basis of total borrowings as a percentage of net assets, as at 31 December 2005 has been reduced to 0% whereas the ratio was 4.9% (as restated) as at 31 December 2004.

REMUNERATION POLICY AND NUMBER OF EMPLOYEES

The remuneration policies adopted for the 12 months period ended 31 December 2005 are consistent with those disclosed in the Group's 2004 Annual Report. As at 31 December 2005, the Group employed approximately 299 full time and 34 contract-based employees (31 December 2004: 300 full time and 63 contract-based employees).