

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

For the year ended 31 December 2005, consolidated turnover of the Group was RMB103,303,000, representing a decrease of 10.1% from RMB114,956,000 last year, primarily attributable to reduced project price as a result of intensified competition.

In 2005, the Group committed increased resources on recruitment of additional high caliber employees and marketing in order to enhance its software development efforts and competitiveness to attract more customers. As a result, the cost of sales, distribution costs and the general and administrative expenses increased by 2.2%, 61.4% and 17.7%, respectively, when compared with last year. The increase in costs of sales and operating expenses has decreased the gross profit margin by 7.7 percentage points to 36.7% and profit margin attributable to equity holders of the Company by 21.2 percentage points to 9.2%. However, this has substantially improved the Group's research and development strength and competitiveness, establishing a strong basis for the good results of the Group in future.

Business Review

Analysis by Business Segment

The following is an analysis of the Group's turnover for the year ended 31 December 2005 by business segment:

	For the year ended 31 December			
	2005		2004	
	RMB'000	%	RMB'000	%
Provision of system integration services	53,121	51.4	58,891	51.2
Development of customised software products	8,419	8.2	12,734	11.1
Sale of software and hardware products	13,032	12.6	27,047	23.5
Provision of maintenance and other services	28,731	27.8	16,284	14.2
Total	103,303	100.0	114,956	100.0

During the year, provision of system integration services remained the primary source of income of the Group, accounting for approximately 51.4% of the total turnover (2004: 51.2%). Provision of maintenance and other services was the second largest contributor, accounting for approximately 27.8% of the total turnover (2004: 14.2%). On the other hand, sale of software and hardware products and development of customised software products accounted for approximately 12.6% (2004: 23.5%) and 8.2% (2004: 11.1%) respectively.

Management Discussion and Analysis

As a result of RCC reform, the RCC information network construction projects in various provinces have been upgraded from a municipal or local level to a provincial level. As such, the time required for project planning was also extended, giving rise to a temporary drop in market demand for the relevant products. This also contributed to a decline in income of the Group from the provision of system integration services, development of customised software products and sale of software and hardware products during the year. However, as the Group actively explored the financial market beyond RCC and non-financial markets with immense growth potential, income from such business segments is expected to rebound.

The Group generally provides a one-year warranty period free of charge for products sold by it. Upon expiry of the warranty period, the Group charges a repair fee depending on the nature of the product, difficulty of the repair work and technology standard of the customer. In 2005, the warranty period of a Shandong project expired and turnover from the provision of maintenance and other services surged to RMB28,731,000 (2004: RMB16,284,000), accounting for approximately 27.8% (2004: 14.2%) of the total turnover of the Group for the same period. We believe that income from the provision of maintenance and other services will become another important and stable income stream of the Group after the completion of projects for other provinces and the broadening of customer base.

Analysis by Geographic Segment

During the year, Shandong Province continued to contribute the largest proportion of income to the Group, which amounted to approximately RMB61,232,000 and accounted for nearly 60% of the Group's total income. Income from this segment was mainly derived from the provision of system upgrade and maintenance services. Since the RCC in Shandong Province has adopted the systems of the Group, we believe that stable income will be generated from all future system upgrade, maintenance, function upgrade, application software development or purchase of relevant software products in this geographic segment.

The construction project of the provincial RCC information network for Hubei Province commenced in full in 2005. During the year, this project brought the Group an income of over RMB20,000,000, accounting for approximately 20% of the Group's total income. In addition, the Group continued to explore the market of RCC in Guangdong Province in 2005. Income from the Guangdong project accounted for over 14% of the total income of the Group in the year. We anticipate that income from the Hubei and Guangdong projects as a percentage of the Group's total income will continue to increase.

Analysis of Turnover by Customer Type

The following is an analysis of the Group's turnover for the year ended 31 December 2005 by customer type:

	For the year ended 31 December			
	2005		2004	
	RMB'000	%	RMB'000	%
Banking and finance sector				
– RCCs	81,911	79.3	89,771	78.1
– non-RCCs	922	0.9	695	0.6
Non-banking and finance sectors	20,470	19.8	24,490	21.3
Total	103,303	100.0	114,956	100.0

The provision of RCC information network construction services remain the primary income stream of the Group for 2005, which accounted for approximately 79.3% of the total turnover.

As for the non-banking and finance sectors, the Group persisted in its independent development of power and wireless application systems. The power application system is used for the enhancement of the service quality of power grids. On the other hand, the wireless application system is used to improve the operational efficiency of traditional labour-intensive activities, such as wireless meter reading for urban utilities, including water, electricity and gas, and data collection in oil fields and water and power supply industries. During the year, the Group made efforts to explore markets with immense growth potential for the provision of information network construction services to the corporations in these markets. Since the Group is still negotiating the contracts with these corporations, the contribution to this sector was insignificant for 2005. However, the management expects a rise in income in the few years to come when the contracts are concluded and the works begin.

Outlook

As many provinces have completed planning for their RCC information networking and are seeking system providers, the Group will be well positioned to capture the opportunities arising from RCC reforms and enlarge its share in the market of RCC information networking by leveraging on the excellent reputation, solid goodwill, strong research and development capability and extensive development experience for financial application software of the Group.

In order to mitigate the risk of relying on a single market, and building on its extensive expertise and experience in application software development, the Group will actively seek to explore the market for financial institute application software beyond the RCC segment, including state-owned banks that are undergoing radical reforms and other leading commercial banks in the PRC.

On the non-financial front, the Group is also aggressively identifying markets with immense growth opportunities with the aim of diversifying its income stream.

Management Discussion and Analysis

Dedicated to maintaining its leading position in terms of application software development technology in the PRC, the Group further stepped up its software development efforts. It is seeking to initiate joint development with several renowned universities in the PRC, which will help reduce the Group's research and development costs while boosting its return in the same time.

We believe that the above strategic moves will expedite the growth of the Group with a boost in income and profit, thereby maximizing the return for shareholders.

Indebtedness

Save for general accounts payables, during the financial year, the Group had no other debt securities in issue, outstanding or authorised 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 2005, the Group had cash and bank balance of RMB111,215,000 (2004: RMB105,015,000). The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was zero (2004: zero).

Foreign Exchange

Since the Group's revenues from the sale of products and its purchases of properties, 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.

Substantial Investment and Acquisition

During 2005, the Group did not have any substantial investment and acquisition.