

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Business Review*

In order to enhance operating efficiency and control capital expenditure, the Group's major customer, telecommunication operators has adopted autonomous and centralized purchasing strategies, resulting in a slowdown of turnover growth in third-party products and income from related technical services of the Group. However, owing to the increase in market share of the Group and the expansion of scale of self-developed software, substantial growth in the income from self-developed software and services was recorded, which led to an increase in gross profit of the Group in the first half of the year.

In terms of internal systems, the Group continued to conduct and optimize the transformation with the product line becoming the core of its operations. The Group has reformed all the products into 8 product lines, further released the core operating rights of product lines, and has undergone optimal combination of rights within the product line in areas such as business planning, technical support, product research and development, project implementation, after-sales service and human resources to ensure that product line oriented end-to-end services are provided to our customer.

### *Sales Strategies*

In view of the needs of market conditions, the Group has established operational offices in Chengdu and Hefei. In addition, the Group has set up marketing departments in Beijing, Shanghai and Guangzhou in the PRC, which are mainly responsible for the overall marketing strategies, sales promotion, market analysis, identification of the needs of new customers, new business development, provision of technical support to the sales division and customer service. The sales and marketing team of the Group has approximately 35 staff members.

Moreover, in order to construct and provide a comprehensive technical service system cover the nation, the Group has established customer technical services centres in Shenyang, Taiyuan, Shijiazhuang, Nanchang and Fuzhou, which basically form the local technical service system nationally.

During the period, the Group had continued its effort in exploiting its market share in telecommunication market, which also extended to new provinces and customers, increase our market share and highly recognised by the telecommunication operators.

## Customers

The Group's customers comprise the four major telecommunications operators, covering 31 provinces in the PRC, a telecommunication operator in Hong Kong as well as enterprises and private network customers. The Group has formed strategic partnership with various reputable multinational telecommunications conglomerates both in the PRC and abroad to provide telecommunications services to end users.

## Product Research and Development

On top of the foundation of the original platform development strategy, the Group introduced product life cycle model for alternate development based on its deep understanding of OSS, in order to cope with changes in demand from telecommunication operators. In addition, we have made an important step in component development. With the gradual build-up of the information flow analysis for component development model, specialized division of labour for development staff has been achieved, which laid a foundation for the enhancement of subsequent research and development management of the Group. The Group has formed a fundamental platform to support its 8 product lines, of which 3 product lines are related to 3G. The Group has combined the standard for each product line to come up with the standard for its market promotion, in order to bring together the market, products and research and development in a proper manner.

In terms of setting up of software system framework & transformational development model, through the cooperation with a well-known consultancy company, the Group has taken a solid step in the period in laying a foundation for adapting the change in demand of the OSS domain and raising the standards for research and development management. The Group has completed preparatory works for CMMI4, further strengthening the quality management system.

## Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows and the balance of proceeds from the placing and public offer of the Company in 2004.

As at 30 June 2006, the Group had cash and cash equivalents of approximately RMB38,028,008, bank deposits of RMB23,010,350 and non-current bank deposit of RMB2,438,280 as compared to the bank balance and cash of RMB46,033,036, bank deposits of RMB25,052,050 and non-current bank deposit of RMB2,438,280 as at 31 December 2005.

## **Gearing Ratio**

As at 30 June 2006, the Group did not have any long-term debts while its shareholders' funds amounted to approximately RMB135,126,717. In this regard, the Group held a net cash position while its gearing ratio (net debt to shareholders' funds) was nil as at 30 June 2006.

## **Capital Structure**

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

## **Significant Investment**

As at 30 June 2006, the Group did not have any significant investments.

## **Material Acquisitions and Disposals/Future Plans for Material Investments**

The Group has no plans for material investments or material acquisitions of capital assets.

## **Foreign Exchange Exposure**

The Group mainly earns revenue and incurs costs in Renminbi and Hong Kong dollars. The Directors believe that the operations of the Group are not subject to significant exchange risk.

## **Charge on Group's Assets**

As at 30 June 2006, the Group did not have any charges on its assets.

## **Contingent Liability**

As at 30 June 2006, the Group did not have any significant contingent liabilities.

## **Employee Information and Remuneration Policies**

As at 30 June 2006, the Group has 375 employees (as at 31 December 2005: 315) working in the PRC. The Group remunerates its employees on their performance, experience and prevailing industry practices. The Directors 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.