

## 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

For the year ended 31 December 2006, consolidated turnover and cost of sales of the Group was RMB23,466,000, representing a decrease of 77.3% from RMB103,303,000 last year and RMB16,556,000, representing a decrease of 74.7% from RMB65,362,000 last year, respectively. The gross profits of the Group in 2006 decreased by 81.8% to RMB6,910,000 from RMB37,941,000 last year as a result of the reduction in number of customers which led to a significant decline in turnover.

The Group's distribution costs dropped by 63.4% to RMB5,410,000, representing 23.1% to the Group's turnover in 2006, as compared to RMB14,788,000 last year, representing 14.3% to the Group's turnover in 2005. The current decrease in selling and distribution expenses was mainly attributable to the decrease in turnover and salaries of sales representatives during the year.

The Group's general and administrative expenses increased by 7.7% to RMB16,547,000 as compared to RMB15,363,000 last year. The Group's administration expenses to the Group's turnover was 70.5% in 2006 as compared to 14.9% in 2005. The current increase in administration expenses was mainly attributable to the increase in professional charges regarding to a number of transactions incurred during the year.

The Group's net loss attributable to equity holders for the year ended 31 December 2006 was RMB16,192,000 as compared to profits of RMB9,469,000 in 2005. Basic loss per share in 2006 was 4.05 Cents as compared with basic earnings per share in 2005 of RMB2.37 Cents. The loss incurred in 2006 was mainly attributable to the decrease in gross profit.

## Business Review

### Analysis by Business Segment

The following is an analysis of the Group's turnover for the year ended 31 December 2006 by business segment:

	For the year ended 31 December			
	2006		2005	
	RMB'000	%	RMB'000	%
Provision of system integration services	<b>8,670</b>	<b>36.9</b>	53,121	51.4
Development of customized software products	<b>3,310</b>	<b>14.1</b>	8,419	8.2
Sale of software and hardware products	<b>7,904</b>	<b>33.7</b>	13,032	12.6
Provision of maintenance and other services	<b>3,582</b>	<b>15.3</b>	28,731	27.8
<b>Total</b>	<b>23,466</b>	<b>100</b>	103,303	100.0

During the year, provision of system integration services was the primary source of the income of the Group, accounted for approximately 36.9% of the total turnover (2005: 51.4%). Sale of software and hardware products was the second largest contributor, accounted for approximately 33.7% (2005: 12.6%) of the Group's total turnover. Provision of maintenance and other services, accounting for approximately 15.3% of the Group's total turnover (2005: 27.8%). Development of customized software products accounted for approximately 14.1% of the Group's total turnover (2005: 8.2%).

Most of the RCC information network construction projects have been upgraded from a municipal or local level to a provincial level. However, the projects which were in local level were under revision. The market demand for the relevant products was slowed down commencing from the early 2006. This also led to a significant 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.

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 its customers maintenance fees depending on the nature of the product, difficulty of the maintenance work and technology standard of the customers. The turnover from the provision of maintenance and other services dropped to RMB3,582,000 (2005: RMB28,731,000), accounting for approximately 15.3% (2005: 27.8%) of the total turnover of the Group for the same period.

# Management Discussion and Analysis

## Analysis by Geographic Segment

During the year, Shandong Province continued to contribute the largest proportion of income to the Group, which amounted to approximately RMB15,792,000 and accounted for nearly 67.30% 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.

## Analysis of Turnover by Customer Type

The following is an analysis of the Group's turnover for the year ended 31 December 2006 by customer type:

	For the year ended 31 December			
	2006		2005	
	RMB'000	%	RMB'000	%
Banking and finance sector				
– RCCS	19,570	83.4	81,911	79.3
– non-RCCs	845	3.6	922	0.9
Non-banking and finance sectors	3,051	13.0	20,470	19.8
Total	23,466	100.0	103,303	100.0

The provision of RCC information network construction services remain the primary income stream of the Group for 2006, which accounted for approximately 83.4% of the total turnover.

## Outlook

Shandong Province has completed its RCC information networking and many provinces have been planning for their RCC information networking. During the year, the Group acquired 100% interest in Zhongtian Software Park Company Limited ("Zhongtian Software") through Qingdao Zhongtian Information Technology Company Limited ("Qingdao Zhongtian"). Zhongtian Software owns the land on which our research and development centre will be built. Upon completion of this R&D Centre, our research and development capabilities will be enhanced to capture the opportunities arising from the RCC reform continues. We believe that income from RCC will be rebounded in this market.

## Indebtedness

Save for general accounts payables, during the financial year and as at 31 December 2006, 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 for operating activities 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 2006, the Group had cash and cash equivalents of RMB29,173,000 (2005: RMB111,215,000). The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was zero (2005: zero).

## Exposure to Foreign Exchange Risk

Since the Group's revenue from the sale of products and its purchases of properties, components and equipment are mainly received or paid in RMB, as at 31 December 2006, the Group had sufficient foreign exchange to meet its foreign exchange requirements.

## Material Acquisition of Subsidiaries and Disposal of Assets and Connected Transaction

On 14 July 2006, Qingdao Zhongtian Information Technology Co., Ltd (青島中天信息技術有限公司) ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, and Qingdao Boda Investment Consultancy Company Limited 青島博大投資諮詢有限公司 (the "Qingdao Boda"), a company established in the PRC, entered into a Disposal Agreement, whereby Qingdao Zhongtian agreed to sell the whole of Level 24 of Times Square, No. 52, Xianggangzhong Road, Shinan District, Qingdao City, Shandong Province, the PRC with a gross floor area of approximately 1,437 square metres to the Qingdao Boda at a price of RMB10,775,800 (or approximately HK\$10,361,346). The Disposal was completed on or about 12 September 2006.

On 14 July 2006, Qingdao Zhongtian and Qingdao Hua Ai Commercial and Trading Company Limited 青島華愛商貿有限公司 ("Qingdao Hua Ai"), a company established in the PRC, entered into an acquisition agreement ("Acquisition Agreement"), whereby Qingdao Zhongtian agreed to acquire the whole building at No. 33, Taipingjiaoyi Road, Shinan District, Qingdao City, Shandong Province, the PRC (the "Acquired Property") with a gross floor area of approximately 5,983 square metres from the Qingdao Hua Ai at a purchase price of RMB50,853,290 (or approximately HK\$48,897,394). On 8 August 2006, Qingdao Zhongtian and Qingdao Hua Ai executed a termination agreement (the "Termination Agreement") pursuant to which both parties agreed to terminate the Acquisition Agreement and to release and discharge each other from all rights, liabilities and obligations thereunder.

On 23 November 2006, Qingdao Zhongtian entered into an agreement with Mr. Chen De Zhao and Ms. Wang Gui Ju pursuant to which Qingdao Zhongtian agreed to purchase and Mr. Chen De Zhao and Ms. Wang Gui Ju agreed to sell 100% equity interest in Qingdao Zhongtian Software Park Company Limited 青島中天軟件園有限公司 ("Zhongtian Software") for a total consideration equal to the difference between RMB70 million (equivalent to approximately HK\$69.3 million) and the total liabilities of Zhongtian Software, RMB30 million (equivalent to approximately HK\$29.7 million) (the "Acquisition"). Zhongtian Software owns a piece of land in Laoshan District, Qingdao City and the Group intended to utilize such piece of land to establish its R&D centre.

As the consideration of the Acquisition represents more than 25% but less than 100% under the applicable ratios under Chapter 14 of the Listing Rules, the Acquisition constitutes a major transaction for the Company under the Listing Rules. Mr. Chen De Zhao and Ms. Wang Gui Ju are the parents of Mr. Chen Jun, a director of Qingdao Zhongtian. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the approval of the independent shareholders of the Company. The Acquisition was approved by the independent shareholders of the Company at an extraordinary general meeting held on 27 December 2006 and the Acquisition was completed on 31 December 2006.

Particulars of the Acquisition are contained in the announcement and circular of the Company dated 23 November 2006 and 12 December 2006 respectively.