Management Discussion and Analysis

REVIEW OF OPERATIONS

For the reporting period, the Group's overall revenue was HK$237.4 million (2005: $212.9 million) with increased contribution from all the Group's main business segments, including Integration and Solutions Services, Application Services, and Distribution which contributed 64.9%, 21.9% and 12.6% to the overall revenue respectively. The gross profit also increased to HK$84.4 million (2005: $78.9 million) as a result of increased revenue.

The Integration and Solutions Services segment achieved a revenue growth of 13.8% compared with the same period of last year. The growth mainly resulted from the sales of additional infrastructure system upgrades to existing customers, particularly, the financial service sector in China. On top of receiving strong recurring revenue from its existing outsourcing service contracts, the Group also managed to secure new service orders from government organizations as well as commercial customers in Hong Kong during the reporting period. However, the profit from these related businesses was hindered by the high operating cost caused by staff turnover due to the strong market demands on IT related work forces in Hong Kong.

The Group has been investing in continuous improvement of its service delivery quality. During the reporting period, the Group achieved Maturity Level 3 of the Capability Maturity Model Integration for Software Engineering ("CMMI-SW"), an internationally recognized software process improvement and software capability evaluation, for its software engineering processes in Hong Kong and Shenzhen. Y&A, the newly acquired subsidiary, is also a CMM Level 2 company. It brings valuable talents to the Group and contributes to an enlarged scale of service operations. The CMMI-SW certification will uplift the Group's profile for gaining new clients and attracting more talents to join the Group. At the same time, leveraging the established quality framework, the Group will expedite its efforts in expanding cost competitive development and support resources in China.

In the last few years, the Group has secured a number of long-term IT outsourcing contracts from the Hong Kong SAR Government (the "HK Government"). These contracts will continue to generate stable service income to the Group. As reported earlier in the interim results, the Group faced certain disputes with the HK Government on certain outstanding payments. Management is glad that these disputes have been settled and most of the related payments are received as of the reporting date. The costs of the settlement have not generated significant impacts to the Group's overall financial results.

During the reporting period, the Group's Integration Services business in China achieved satisfactory results with strong repeated orders from its steadily growing install base. Buoying on top of the strong economy and growth in China, the Group also benefited from its clients' business expansions in various sectors such as financial services, transportation, and manufacturing industries. Furthermore, the service portion of the business in China continues to rise and fertilizes the growth in gross profit margin.

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In view of the strong momentum of the China economy, the management anticipated that the demands on IT outsourcing service in China will be growing. The Group will be in an advantageous position to capture this upward trend by replicating its extensive experiences and service offerings in IT solutions outsourcing into the huge China market.

The Group's electronic services, namely Government Electronic Trading Services (GETS) and Electronic Tendering System (ETS), are generating stable transaction and subscription-based incomes for the Group. The promotion program launched during the year has accelerated its expansion into the SME sector and widened the Group's customer base for cross-selling other products and services.

The Group's own-branded HRM solution sustained its leading position among the enterprise customers and achieved a record-high revenue generated from the sale of software license. Taking advantage of the improved economy in Hong Kong, the Group won a number of major contracts from customers in food and beverages, transportation, and professional services sectors.

The Group's distribution business remained weak during the year. However, the Group managed to expand its product portfolios to cover the digital home entertainment related equipment and become less dependent on a single product line.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2006, the Group's bank balances and cash (excluded pledged bank deposit of HK$11.7 million) was HK$163.8 million (2005: HK$171.8 million).

Approximately 97% of the Group's on hand funding is in Hong Kong, Renminbi, and US currencies. The Group has not adopted any hedging policies, as these currencies carry low exchange fluctuation risks.

REMUNERATION POLICY AND NUMBER OF EMPLOYEES

The remuneration policies adopted for the year ended 31 December 2006 are consistent with those disclosed in the Group's 2005 Annual Report. As at 31 December 2006, the Group employed approximately 363 full time employees and 1 contract-based employee (31 December 2005: 299 full time and 34 contract-based employees).