

## MANAGEMENT DISCUSSION AND ANALYSIS

### SUMMARY OF RESULTS

The Group recorded a turnover of HK\$291,041,000 (2003: HK\$154,882,000) for the year ended 31 December 2004, representing an increase of 87.9% as compared with that of 2003. The increase was mainly due to the significant growth of the Group's newly developed sale of integrated circuits and computer software business. The long-term effort of the Group in boosting its software development and systems integration business and manufacturing and sale of computer related products was also gradually paying off, contributing not only to the turning around of the overall performance of the Group during the first half of the year, but also boosting the Group's annual profit to HK\$8,054,000 (2003: loss of HK\$10,108,000).

### BUSINESS REVIEW

During 2004, the Group improved its operating environment when compared with that of previous year. And its software development and system integration business also improved significantly. Nevertheless, there was a drop in the gross profit rate of its manufacturing and sale of computer related products business. While the sale of its newly developed sale of integrated circuits and computer software business enjoyed satisfactory growth and a great gross profit, its associate, SJTU Sunway Software Industry Limited ("SJTU Sunway") suffered a loss.

During the year, SJTU Sunway continued its strategic business transformation with key focus on its information localisation business. Since greater financial provisions were made to fund the business transformation, SJTU Sunway incurred a loss during the year and dragged down the Group's overall result.

As a whole, the scale of the Group's different business units was still relatively small and the Group's overall result growth was offset by the loss incurred by some of its business segments.

### SOFTWARE DEVELOPMENT AND SYSTEMS INTEGRATION

The Group's software development and systems integration business cover mainly social security, healthcare security, hospital information management systems, picture achieving and communication systems and public security immigration and exit control software. During the year, turnover of this business sector was HK\$55,247,000, representing approximately 19.0% of the Group's total turnover. As compared with the turnover of HK\$30,060,000 in the previous year, the segment's turnover this year increased significantly by 83.8%. This rise was mainly attributable to the Group's having a series of resource integration and cooperative initiatives and its enhanced competitiveness as a result of reinforced internal management and optimised structure. The Group was qualified in the first half of 2004 as a software & technical service provider for the Social Security Management Information System of the Ministry of Labour and Social Security (the "Ministry") in the PRC and in October 2004 as a core member of the employment platform of the Ministry. During the year, the Group also received the CMM3 certification (an industry recognised software sophistication standard). It also made major efforts in improving its current technical skills and nurturing its pool of technical experts, thus boosted both its turnover and operational capability. Accordingly, as expected, the segment experienced rapid growth during the second half of 2004 (turnover of the first half of 2004: HK\$12,311,000).

### MANUFACTURE AND SALE OF COMPUTER RELATED PRODUCTS

The Group stepped up its efforts in developing this business segment during the year. These efforts included the successful acquisition of a factory in Fuzhou Mawei and the opening of a new factory in Wuhan. However, with plastic injection processing market becoming increasingly competitive, the gross profit margin of the segment decreased to 12.7% during the year (2003: 17.6%). The competitive market and less than desirable human resources development explained lower than expected growth in production capacity of the segment during the second half of the year. The segment's turnover of the year increased by 14.2% over that of the previous year.

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### **SALE OF INTEGRATED CIRCUITS AND COMPUTER SOFTWARE**

As for the sale of integrated circuits and computer software business, boasting a healthy profit margin and abundant development potential, it has been the focus of the Group since the first half of 2004. Riding on the Group's extensive experience in software design and the strong demand for integrated circuits from prominent clients, its sales in the first half of 2004 already reached HK\$36,885,000 and its sales for the year totalled at HK\$93,285,000, representing 32.1% of the Group's total turnover. Its profit was stable.

### **PROSPECTS AND FUTURE PLANS**

During the year, the Group undertook proactive adjustments to its operation, resulting in growth at various extent in its different business segments all looking at bright prospects. However, as the scale of the Group's business units are relatively small, the Group has not been able to raise its sales income and profit to more satisfactory levels in the short term in recent years.

The Group has had its eyes on the PRC finance e-payment service market where it sees immense growth potential. It has been actively looking for business opportunities and ideal partners in this segment, especially among new service operations, and has also been making preparation and accumulating required resources. The Group announced an acquisition of 30% equity interests in Loten on 29 March 2005, marking an important milestone in the Group's development in the PRC e-payment service market and clearly indicating the segment will be its primary development focus in the next 5 years.

Loten is a leading PRC finance e-payment service provider and a pioneer in the PRC ATM market. Loten commenced investment and planning the development of the PRC ATM market as early as 2001 and has been supplying ATM machines and providing various related value-added services in the PRC in recent years. It has established long-term cooperation with the headquarters and branches of China Union Pay, and has entered into cooperation agreements for ATM project with many PRC commercial banks and institutions. Loten possesses intensive operating experience and a sophisticated business model as well as professional expertise in finance e-payment service.

The cooperation between the Group and Loten in developing ATM business in the PRC presents the Group with an optimum opening into the finance e-payment service market in the PRC and Loten takes the leverage to accelerate the expansion of its ATM business. The board believes developing ATM business in the PRC will not only bring to the Group a long term steady and significant income source (Loten agreed to guarantee a profit return of at least RMB50.0 million in the 24 months after the acquisition), but is also a strategic move to start the Group on the path of becoming a leading finance e-payment service provider in the PRC (the Group has the right of first refusal over the remaining 70% interests in Loten).

Looking forward, we have great confidence in the development of the finance e-payment service market in the PRC. Bank cards, as the e-payment medium, have entered its rapid growth phase in the PRC, fuelling and directing the demand for ATMs and the rapid growth of the ATM service market. Leveraging the Group's competitive advantages and Loten's extensive experience in ATM service business, the Group will be able to more effectively apply its resources to capture first opportunities, thus opening for the Group a new leaf in its development while bringing satisfactory returns to our shareholders.

To consolidate its resources for the development of ATM business in the PRC, the Group will be prudent in running its existing businesses. We will appropriately adjust and restructure different businesses, heeding their specific features and requirements.

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### **MATERIAL INVESTMENT IN SUBSIDIARIES AND ASSOCIATES**

In May 2004, the Group acquired a subsidiary, Fuzhou Roong Thavorn Plastics Co., Ltd. ("Roong Thavorn"), at a consideration of RMB13.4 million in which the Group holds 65% equity interest in Roong Thavorn and is principally engaged in the production and sale of plastic casing.

In May 2004, the Group established Fujian Multi Language Translation Service Company Limited ("FMLT") in which the Group holds 25% equity interest and contributed proportionately RMB1.3 million in the registered capital of FMLT and is principally engaged in the provision of translation services.

In May 2004, the Group established Fujian Start Information Facility Co., Ltd. ("Fujian Start Information") in which the Group holds 100% equity interest and contributed RMB4.4 million in the registered capital of Fujian Start Information. Fujian Start Information is principally engaged in the provision of software development and systems integration services.

In June 2004, the Group established Inner Mongolia Start-Tech Software and System Co., Ltd. ("Inner Mongolia Start-Tech") in which the Group holds an effective 87.9% equity interest and contributed RMB3.0 million in the registered capital of Inner Mongolia Start-Tech. Inner Mongolia Start-Tech is principally engaged in the provision of software development and systems integration services.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2004, the Group had cash and bank balances of HK\$218.1 million (2003: HK\$193.4 million) of which HK\$17.5 million (2003: HK\$17.5 million) were pledged to banks for facilities granted to the Group.

Loans and overdraft of the Group as at 31 December 2004 amounted to HK\$67.8 million (2003: HK\$6.9 million) and were all repayable within one year. As at 31 December 2004, the total asset value of the Group was HK\$558.1 million (2003: HK\$413.2 million) whereas the total liabilities was HK\$185.2 million (2003: HK\$94.0 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 33.2% (2003: 22.7%).

Of the total borrowings as at 31 December 2004, about 35.0% was denominated in Renminbi and the remainder in HK dollars, and 36.8% was at fixed interest rates.

As at 31 December 2004, the Group had available aggregate banking facilities of HK\$103.0 million (2003: HK\$73.3 million) of which HK\$33.3 million (2003: HK\$64.4 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK\$17.5 million (2003: HK\$17.5 million), and investment properties of the Group valued at HK\$6.3 million (2003: HK\$4.0 million) as at 31 December 2004.

The Group continued to maintain a net cash (being the total cash and bank balances net of total borrowings) to equity ratio of 44.2% (2003: 62.3%) as at 31 December 2004. With net cash of HK\$150.3 million (2003: HK\$186.6 million) as at 31 December 2004, the Group's liquidity position remains strong and the Directors believe that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

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### CONTINGENT LIABILITIES

As at 31 December 2004, certain buildings held for own use of the Group with an aggregate carrying value of HK\$8,600,000 (2003: HK\$5,750,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$15,000,000 (2003: HK\$15,000,000) granted to a subsidiary of a former related company. As at 31 December 2004, the amount of the facilities utilised was HK\$788,000 (2003: HK\$5,347,000).

### EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

### EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2004, the Group had approximately 1,426 (2003: 856) employees of which approximately 149 (2003: 93) were technicians. Employees' costs (including directors' emoluments) amounted to approximately HK\$29.9 million (2003: HK\$26.7 million) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programme is provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board may at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme.