



# Management Discussion and Analysis

## Business Review

### Self-service financial services

In 2005, the Group acquired all interest of Loten at a consideration of RMB194 million. Loten possesses the know-how of ATM business in the PRC and strength in product design, component specification and quality control. On the other hand, Loten is one of the leading enterprises in terms of location, value-added services and continuous maintenance. It also has a wide client base in the financial services industry and involved in the technology development of the ATMP of China Unionpay. As of 2005, Loten currently had over 100 ATMs and the number is expected to increase to over 300 ATMs by the end of the first quartet of 2006. Meanwhile, Loten also entered into contracts with 11 institutions of China Unionpay and over 20 commercial banks in China in relation to the establishment and operation of 15,000 ATMs in the coming five years throughout the country. With these contracts, the Group will become the leading independent operator in China.

### Software Development and Systems Integration Services

The sale of the business in the year under review was HK\$49,430,000, accounting for approximately 20.6% of the overall turnover of the Group. The Group focused on the large-scale 福建金保 and 福建機關社保 projects. For the 福建金保 project, it is under review by the authority. In addition, the Group was granted the pilot social insurance project for the organizations under Fujian Provincial People's Government and entered into two contracts with “三明機關社保” and “寧德機關社保”. With the active promotion of social insurance in all cities, it is expected that the operation will commence in Fuzhou, Longyan, Zhangzhou and Quanzhou in the coming two years.

In the year under review, the Group entered into contracts in relation to the hospital information management system (“HIS”) of 14 hospitals and three laboratory information management system (“LIS”). The aggregate contract value was over HK\$10 million.

### Sale of Integrated Circuits and Computer Software

During the year, the sale of integrated circuits and computer software business reached HK\$102,364,000 representing 42.7% of the Group's total turnover.

### Manufacture and Sale of Computer Related Products

The sale of the manufacture and sale of computer related products business for the year was HK\$87,105,000, accounting for 36.4% of the total turnover. Among fierce competition in the plastic injection processing market, the gross profit margin decreased accordingly. The Group decided to dispose of this business so as to improve the profitability and direct more resources to develop the self-service financial services business.

### SJTU Sunway

In the year under review, SJTU Sunway Software Industry Limited, an associate of the Group, continued to focus on strategic transformation and explore new business opportunities so as to further develop the business.

### Prospects

The self-service financial services market in the PRC is at a robust stage. According to the research finding of international retail bankers, there were 48 and 429 ATMs per 1 million people in the PRC and Hong Kong, respectively, showing the huge potential of the PRC market. In light of this, the Group plans to establish about 1,500 ATMs in cities like Shenzhen, Beijing and Shanghai shortly.

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Regarding the development strategy for the value-added services, the Group focuses on the development of value-added services for ATM, while at the same time attaches great importance to derivative businesses in relation to the value-added services for ATM. The Group is currently negotiating with the banker clients on the feasibility of developing utility payment services, electronic lottery and advertisements.

Consolidating the competitiveness of the Group and the extensive experience of Loten in finance e-payment services, the Group will proactively seize market opportunity and speed up the growth, moving towards the aim of becoming the leading self-service financial services provider in the PRC.

## **Material Investments and Disposals in Subsidiaries and Associates**

In March 2005, the Group acquired 30% interests in ATM Companies at a consideration of RMB60 million. Loten is a solution provider in relation to the management of ATM for financial institutions in the PRC. With reference to the announcement dated 6 December 2005, the Group has entered into a Sale and Purchase Agreement to further acquire the remaining 70% interests in ATM companies at a consideration of RMB144 million, and is conditional upon the fulfillment of certain conditions. The information regarding this transaction was published in conformity with the Listing Rules in the Company's circular dated 30 December 2005.

In March 2005, the Group has established Shanxi Start Technology Co., Ltd (“山西實達”) in which the Group holds 51% equity interest and contributed RMB1,530,000 as registered capital. 山西實達 is principally engaged in the provision of software development and systems integration services.

In May 2005, the Group entered into the equity transfer agreement pursuant to which the Group will sell the entire interests in the Plastic Companies at a consideration of RMB33,800,000. The information regarding this transaction was published in the Company's circular dated 23 June 2005 in conformity with the Listing Rules.

## **Liquidity and Financial Resources**

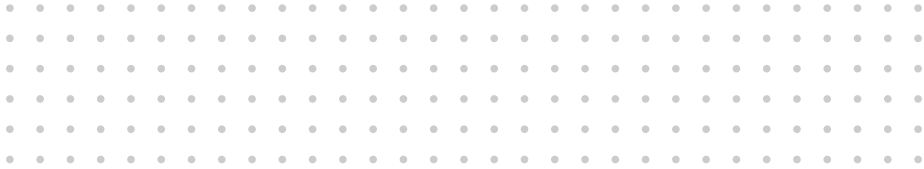
As at 31 December 2005, the Group had cash and bank balances of HK\$29.8 million (2004: HK\$218.1 million) of which HK\$17.5 million (2004: HK\$17.5 million) were pledged to banks for facilities granted to the Group.

Loans and overdraft of the Group as at 31 December 2005 amounted to HK\$64.3 million (2004: HK\$67.8 million) and were all repayable within one year. As at 31 December 2005, the total asset value of the Group was HK\$408.4 million (2004: HK\$555.1 million) whereas the total liabilities was HK\$143.3 million (2004: HK\$184.6 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 35.1% (2004: 33.2%).

Of the total borrowings as at 31 December 2005, about 15.2% was denominated in Renminbi and the remainder in HK dollars, and 10.5% was at fixed interest rates.

As at 31 December 2005, the Group had available aggregate banking facilities of HK\$79.6 million (2004: HK\$103.0 million) of which HK\$6.0 million (2004: HK\$33.3 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK\$17.5 million (2004: HK\$17.5 million), and investment properties of the Group valued at HK\$8.3 million (2004: HK\$6.3 million) as at 31 December 2005.



The Group maintain a net borrowings (being the total cash and bank balances net of total borrowings) to equity ratio of 13.0% (2004: net cash to equity ratio of 40.5%) as at 31 December 2005. With net borrowings of HK\$34.5 million (2004: net cash of HK\$150.3 million) as at 31 December 2005, the Group's liquidity position has become tighten and the Directors of the Group has implemented certain financing measures including rights issue in March 2006 to ensure the Company has sufficient financial resources to satisfy its commitments and working capital requirements.

### **Contingent Liabilities**

As at 31 December 2005, certain buildings held for own use of the Group with an aggregate carrying value of HK\$5,642,000 (2004: HK\$8,600,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$15,000,000 (2004: HK\$15,000,000) granted to a subsidiary of a former related company. As at 31 December 2005, the amount of the facilities utilised was HK\$7,985,000 (2004: HK\$788,000).

As at 31 December 2005, the Group had contingent liabilities in connection with performance bonds for suppliers amounting to HK\$3,588,000.

### **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 2005, the Group had approximately 497 (2004: 1,426) employees of which approximately 168 (2004: 149) were technicians. Employees' costs (including directors' emoluments) amounted to approximately HK\$25.4 million (2004: HK\$29.9 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.