

MANAGEMENT DISCUSSION AND ANALYSIS

Our results for the year ended 31 December 2005 reflected increases in net sales, gross profit and net profit from that for the year ended 31 December 2004. Net sales was HK\$438.76 million, compared with HK\$279.70 million in 2004. Gross profit was HK\$191.56 million, compared with HK\$85.96 million in 2004. Net profit was HK\$62.30 million, compared with net loss of HK\$12.13 million in 2004. Earnings per share was HK\$0.187, compared with loss per share of HK\$0.036 in 2004.

We have achieved a good balance in revenue growth from our three business segments as reflected by the revenue recorded for each segment. Overall gross profit margin improved as a result of the high margin derived from the operation value-added services. The net profit for the year was stated after including the followings:

	2005 <i>HK\$'million</i>	2004 <i>HK\$'million</i>
Share-based compensation	4.49	–
Directors' bonus	7.60	–
Interest on financial liability portion of convertible preference shares issued by a subsidiary	1.11	–

Cash flows from operations were HK\$74.60 million, compared with HK\$31.01 million for 2004. With regard to our balance sheet, at the end of 2005, the total assets as at 31 December 2005 amounted to HK\$313.74 million, compared with HK\$240.72 million as at 31 December 2004. Current assets as at 31 December 2005 was HK\$275.77 million, compared with HK\$219.59 million as at 31 December 2004.

FINANCIAL SOLUTIONS, SERVICES AND RELATED PRODUCTS

During the year, the business segment recorded a turnover of HK\$157.78 million (2004: HK\$129.79 million) and profit of HK\$13.32 million (2004: loss of HK\$16.99 million).

The increase in the turnover was mainly derived from revenue in business consultancy and core banking system. The implementation of the integrated banking systems for the ICBC (Asia) in Hong Kong and Bank of Communication in China were on schedule. The management has been taking active steps to widen the source of income in this year, which included new contracts for ICBC (Asia) – Belgian Bank integration and certain projects for Bank of Communication. We noted the further shrinkage in the hardware business and the management had implemented the retrenchment measures. We recorded a saving of expenses of approximately HK\$23.37 million compared to that of last year.

ELECTRONIC PAYMENT SOLUTIONS AND PRODUCTS

Turnover and profit recorded during the year were HK\$133.07 million (2004: HK\$96.00 million) and HK\$14.23 million (2004: HK\$9.66 million) respectively. The percentage increase in total shipments was 35% on a year on year basis. The shipment contribution of Mainland China market was 77% while the Hong Kong and the South East Asian market contributed the rest. As the market demand for EFT-POS terminals had been booming in China, in particular the speeding up of launching of machines for China Union Pay, we have achieved a 56% growth in shipments in China. Outside China, due to intense market competition and deferral in the implementation of Europay Mastercard Visa ("EMV") standard migration of certain clients in Hong Kong and overseas, the contribution was reduced to 23% of the total shipment, and there was a slight decrease of 7% in shipment comparing with last year.

We have striven to develop new products with stylish design and innovative features, by heavily investing in the research and development. We also put high emphasis on customer satisfaction and thus putting strong efforts and resources in after-sale services. The above measures enable us to maintain a favourable position in this business segment and reasonable gross profit margin. The increase in investment in research and development and customers services reflected in the increase of headcounts, undoubtedly add pressure to the segment's bottom line.

Furthermore, we have teamed up with an American peer in expanding into the American market and have set up a representative office in Russia. These paved the way for us to enter the global theatre with very humble set-up cost.

With the well-established market position, brand name, aggressive sales and marketing team, we are confident in sustaining the market leadership in Mainland China and in Hong Kong. We are also committed to offer the best value for money products in the international arena, which will become the major contributor to our revenue once opportunity arises.

TELECOMMUNICATION SOLUTIONS, SERVICES, INFORMATION TECHNOLOGY OPERATION VALUE-ADDED SERVICES AND RELATED PRODUCTS

For the year ended 2005, the turnover and profit recorded were HK\$147.76 million (2004: HK\$53.72 million) and HK\$69.08 million (2004: HK\$7.94 million) respectively.

During the year, the upsurge in the turnover was mainly attributed to IVR operation value-added business which amounted to HK\$136.24 million (2004: HK\$32.28 million) while the turnover from traditional integrated applications services recorded was HK\$11.52 million (2004: HK\$21.44 million). The transformation of the segment to a value-added services provider was basically completed. The retention of the loss-making system integration division supplemented the core business in developing new products and services.

In order to cope with the rapid growing mobile telecommunication subscribers and their demand for new services, we have been increasing investment in upgrading our operation platform and develop new products and services based on the new generation technology which we expect as a next wave of growth momentum in the industry.

We believe that IVR platform operation services will be a stable income generator with the new generation technology-based products as a driver for further growth.

PROSPECT

The Group shall continue to strengthen its market position as a leading player in the consultancy and operation value-added services provider in the financial and telecommunication industries in Mainland China.

Going forward, the Group shall continue to devote its efforts in the implementation of its business strategies to achieve sustainable superior returns for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group reported total assets of HK\$313.74 million (2004: HK\$240.72 million), which were financed by total liabilities of HK\$186.31 million (2004: HK\$192.09 million) and equity of HK\$127.43 million (2004: HK\$48.63 million). The net assets value was HK\$127.43 million (2004: HK\$48.63 million). It amounted to HK\$0.38 per share as compared to HK\$0.15 per share as at 31 December 2004.

As at 31 December 2005, the Group had cash of HK\$156.58 million (2004: HK\$47.65 million) and short term borrowings of HK\$48.08 million (2004: HK\$14.30 million). The net cash position as at that date was HK\$108.50 million as compared to HK\$33.35 million as at 31 December 2004. The short term borrowings included short term bank loan to fund the Group's working capital requirements. As at 31 December 2005, the Group had financial liability portion of convertible preference shares issued by a subsidiary of HK\$21.17 million (2004: Nil). The gearing ratio (defined as total borrowings divided by shareholders' equity) was 0.54 compared to 0.29 as at 31 December 2004. The gearing ratio is considered healthy and suitable for the continued growth of the Group's business.

CAPITAL STRUCTURE AND DETAILS OF CHARGES

As at 31 December 2005, the Group's short term borrowings included short term bank loan which was denominated in Renminbi, amounting to RMB50 million. The short term bank loans were charged at 5.58% per annum.

Turbo Speed Technology Limited ("Turbo Speed"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with independent third parties in relation to the subscription of 6,837,608 convertible preference shares of US\$0.10 each of Turbo Speed for a total subscription price of US\$4 million (approximately HK\$31.2 million) ("the Subscription"). Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved the Subscription and the Subscription was completed on 29 April 2005. As at 31 December 2005, financial liability portion of convertible preference shares issued by a subsidiary of the Company amounted to HK\$21.17 million. Interest expense on convertible preference shares is calculated using the effective interest method by applying the effective interest rate of 8.27% per annum to the liability component. The fair value of the liability component of convertible preference shares at 31 December 2005 amounted to HK\$21.02 million. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.32% per annum.

Approximately HK\$114.54 million, HK\$13.16 million and HK\$28.88 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 31 December 2005.

As at 31 December 2005, secured short term bank loans of HK\$48.08 million were secured by corporate guarantee from the Company.

EXCHANGE RATES EXPOSURE

The Group derives its revenue, makes purchases and incurs expenses denominated mainly in US dollars, Renminbi and Hong Kong dollars. Currently, the Group has not entered into agreements or purchased instruments to hedge the Group's exchange rate risks. Any material fluctuation in the exchange rates of Hong Kong dollar or Renminbi may have impact on the operating results of the Group.

CONTINGENT LIABILITIES

The Group had no contingent liability as at 31 December 2005.

EMPLOYEES

The total number of employees of the Group as at 31 December 2005 was 699. The breakdown of employees by division is as follows:

Financial solutions, services and related products	320
Electronic payment solutions and products	128
Telecommunications solutions, services and related products	125
IVR operation	110
Corporate office	16
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	699

The Group ensures that its remuneration packages are comprehensive and competitive. Employees are remunerated with a fixed monthly income plus annual performance related bonuses. The Group also sponsors selected employees to attend external training courses that suit the needs of the Group's businesses.