



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Smart Card Business

On 10 May 2006, the Smart Card system was fully launched to replace paper tickets used on the Beijing subway, public buses and taxis. The public buses monthly ticket policy reform kick off in the beginning of 2007 has given a strong push to public adoption of Smart Cards. At the end of March 2007, 10 million Smart Cards were issued and more than 10 million transactions were registered daily. During the year, Smart Card service was made available on 31 December at six tolling stations covering 15 lanes on the Badaling Expressway and nine tolling stations covering 16 lanes on the Beijing-Tianjin-Tanggu Expressway. Starting from October onwards, Smart Cards can also be used to purchase movie tickets at 23 cinemas of Beijing New Film Association. That has provided a constructive trial base for using Smart Card to conduct small payment transactions.

In June 2006, the Group and Beijing Education Bureau signed a Cooperation Agreement regarding the issuance, management, application and promotion of Student IC Cards to primary and secondary school students in Beijing. Student IC Cards were subsequently issued in batches to the students and a three-tier management system covering the city, districts (counties) and schools was set up to promote a full scope of applications of the cards. As at the end of March 2007, one million Student IC Cards were issued.

2. Rail Transportation Business

During the period under review, the Company signed several contracts for projects including the Automated Fare Collection (“AFC”) System for the Beijing Metro Lines 1 and 2 and the Batong Line; the Automated Fare Collection and Clearing Center (“ACC”) System for the Beijing Mass Transit Network Management and Support Project. Other rail transportation related projects it undertook primarily for the Beijing Subway during the year are the safety door system for Lines 5, 10 and 4; the re-engineering of trains and equipment concealment for Lines 1 and 2; and the establishment of the Building Automation System (“BAS”) for Lines 1 and 5, etc. These projects together carry a total contractual value of RMB840 million, RMB570 million of which was the value of direct contracts won by the Company.

3. e-Government Administration Business

The e-government and education information projects in Beijing landed by the Company carry a total contract value of RMB160 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

4. New Project Development

In November 2006, the Company signed a Cooperation Agreement with Beijing Subway Operation Company Limited to build Beijing Subway's Public Communications Information System Platform. Setting up a public communication platform for the Beijing Subway is one of the key technological projects for the 2008 Beijing Olympics. This platform will facilitate the construction and integration of the public communication and passenger information direction systems of Lines 1 and 2 of the Beijing Subway. It will be able to support public signaling inflow thus provide the link between all kinds of information operators and value-added service suppliers and passengers. Passengers will have access to different audio, graphic, data and multimedia broadcast and mobile data application services.

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group recorded a consolidated revenue of HK\$585 million, representing an increase of 10% from HK\$531 million in 2005. Profit attributable to shareholders amounted to HK\$12.08 million, as compared to the loss of HK\$35.04 million in 2005.

1. Revenue of the information technology business segment increased by 6.1% from HK\$273 million in 2005 to HK\$290 million, occupying 49.6% of the Group's total revenue. Of the impairment of HK\$40.1 million for trade and other receivables made by the Group for its information technology subsidiaries last year, HK\$23.15 million was written back in 2006. During the year, affected by Xteam's deteriorated performance, segment profit amounted to HK\$51 million, against the loss of HK\$7.4 million recorded in 2005.
2. Restaurant business segment brought in HK\$292 million in revenue, 15.4% more than last year's HK\$253 million, accounting for 50% of total revenue of the Group. Segment profit reached HK\$11.25 million, representing a decrease of 37.2% from HK\$17.9 million in the previous year.

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FINANCIAL POSITION

In November 2006, the Company placed up to a total of 98 million new shares at HK\$ 1.1 per share and raised HK\$104 million as general working capital.

As at the end of 2006, the Group had total assets of HK\$1.025 billion, increased by HK\$170 million from HK\$855 million at the beginning of the year. Its total liabilities increased to HK\$360 million, HK\$22 million more than HK\$338 million at the beginning of the year. Equity attributable to equity holders of the Company reached HK\$565 million, HK\$129 million higher than HK\$436 million at the beginning of this year. Net asset value per share was HK\$0.955, representing an increase of HK\$0.072 from HK\$0.883 at the beginning of the year.

	As at 31 December 2006 HK\$ million	As at 31 December 2005 HK\$ million
Cash and bank balances	302.38	150.45
Bank borrowings	83.35	112.31
Advance from a holding company	–	50.00
Net cash/(borrowings)	219.03	(11.86)
Net gearing ratio	N/A	2.7%
Current assets	670.78	470.65
Current liabilities	353.86	334.45
Current ratio	189.6%	140.7%

About 84% of the Group's bank borrowings were denominated in Renminbi, unsecured and carried fixed annual interest rates of between 5.5% and 6.1%. The total value of the Group's pledged assets amounted to HK\$66.61 million, HK\$21.33 million of which was pledged deposits. Around 80% of the cash and bank balances of the Group were denominated in Renminbi. The management believes the financial risk posed by fluctuation of exchange rates on the Group is limited.

EMPLOYEES

As at the end of 2006, the Group had approximately 2,050 employees, as compared to 1,840 at the end of 2005. Total expense on employee benefits in 2006 reached HK\$113.92 million (excluding share options), increased by 22% as compared to HK\$93.4 million last year. The management believes the salaries offered by the Group to its employees are competitive.