



MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

During the year, the Company was principally engaged in property development, and through its listed subsidiary, Sino-i Technology Limited ("Sino-i"), engaged in corporate IT application services, financial information services and distance learning services. As of 31 December 2006, turnover for the year was HK\$2,099.2 million (2005: HK\$154.8 million) and a net loss of HK\$34.7 million (2005: a net profit of HK\$56 million) was recorded. The net asset value of the Group amounted to approximately HK\$4,884.8 million (2005: HK\$4,870.2 million), representing a value of HK\$0.058 per share.

The net loss recorded in 2006 was mainly due to the one-off write off of accumulated goodwill amounted to approximately 290 million which was generated from the business of provision of financial information services. The main reason for writing off the goodwill was due to the change of business strategic plans. Without taking into account of the write off of goodwill, the Group should have a net profit of HK\$255.1 million in 2006. In consideration of the improving business performance and foreseeable financial strength, the Company believes that the write off of goodwill will be beneficial for its growth in long-term.

Property Development

During the year, turnover of HK\$1,477.8 million (2005: Nil), and net profit of HK\$269.8 million (2005: Nil) were recorded. The entire turnover and profit were from the sale of the first phase of The Peninsula in Shekou, Shenzhen.

The first phase of The Peninsula was launched for sale in February 2006. All 1,012 units having saleable area of approximately 140,000 m² were sold out in five days at an average price of approximately RMB11,500 per m², having the total sales proceeds of RMB1.5 billion.

The Peninsula consists of five phases. The total gross floor area of the second phase of The Peninsula is approximately 220,000m². The construction works of the second phase will roll out in full scale in 2007, and it is expected to be launched for sale to the market in early 2008. The Peninsula will continue to generate stable and strong cashflow for the Company in the coming years.

40% of the sales revenue generated from the sale of the first phase of The Peninsula was attributed to a project cooperation partner, but the Company will solely develop the remaining phases. By the taking the increasing property price in Shenzhen into account, it is expected that both the sales revenue and profit attributable to the Company will increase substantially.



In addition to The Peninsula, the Guangzhou project will be developed into a mega sized international contemporary commercial and residential community integrating cultural recreations and commercial amenities. Its total gross floor area is approximately 1 million m². The overall planning is undergoing application procedures, and the designing stage for the first phase is in progress. The first phase construction works will start in the third quarter of 2007.



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Corporate IT Application Services

During the year, the Company through Sino-i maintained steady and rapid growth in corporate IT application services sector. This division was recorded a turnover of HK\$585.2 million (2005: HK\$128.9 million (4 months)) and a net profit of HK\$126.8 million (2005: HK\$55.8 million (4 months)). The increase in turnover and net profit of the Company was mainly due to the increase in demand for IT services and products by SMEs, and the Company's successful operating strategy.



The continuing increment of IT investment by SMEs has speeded up the development of the IT market. Resulting from the long-term cooperation with SMEs, and continuing introduction of innovative products and provision of comprehensive services by the Company, the performance of the Company remained extraordinary in the highly competitive market.

The Company will continue to improve its business strategies, marketing and sales, technological R&D and service operation etc.; to increase innovation; to reallocate internal resources for synergies; and to enhance operating efficiency.

CE Dongli

CE Dongli has been following the concept of "Customer Oriented", providing clients with high quality products and services through its nationwide business network. With its outstanding performance, CE Dongli has been awarded as follows which have drawn the attention of its competitors:

- No.1 Brand for China Enterprises IT Application Services;
- Top 10 Growing Enterprises by Fortune China;
- Integrity Enterprise in Information Industry of China for two consecutive years;
- China Best Growing Enterprises in IT;
- China Best Service Provider in e-Commerce;
- China IT Innovation Enterprise in China for two consecutive years;
- China IT Annual Innovation Enterprise Reward;
- Informationalize Influence China IT 2006 Annual Contribution Award;
- Users Most Satisfied IT Application Service Provider;
- Excellent IT Outsourcing Service Provider in China;
- Best Brand of Internet Application Service Provider in 2005.



Xinnet

As an operator of basic Internet application service for corporate information, Xinnet strengthened its distributor channels. At present, Xinnet has established 27 branches over the country, and has more than 10,000 distributors.

In view of Xinnet's main businesses, it is ranked the first in both ownership and registration of domain names in China. In addition, Xinnet was awarded as a golden registration service provider of "cn" domain names and golden registration service provider of Chinese domain name by CNNIC in 2006. "Free post" of Xinnet was accredited a special prize by China Internet Conference.



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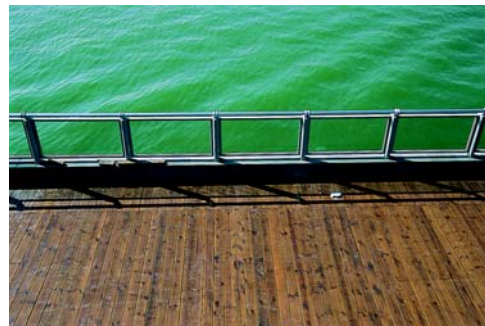
Financial Information Services

During the year, this division was recorded a turnover of HK\$39.6 million (2005: HK\$5.5 million (4 months)) and a net loss of HK\$283.1 million (2005: HK\$6.6 million (4 months)).

Shihua continued to focus on financial information service business. By means of streamlining information exchange, professional contents and analysis, and real-time information delivery, Shihua could provide accurate and detailed financial information for the information market in China.

Distance Learning Services

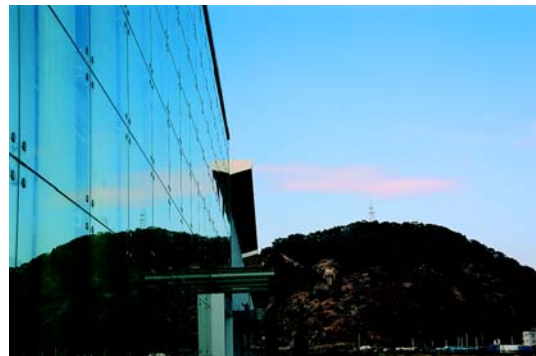
During the year, this division was recorded a turnover of HK\$17.6 million (2005: HK\$15.9 million (4 months)) and a net profit of HK\$5.1 million (2005: HK\$10.4 million (4 months)).



In 2006, Chinese Dadi had developed more than 300 education software for clients. It also established comprehensive and in-depth collaborations with more than 20 provincial and municipal examination authoritative organizations, and established its branch offices in 8 major cities in China. Chinese Dadi has more than 800,000 registered on-line education users. The average daily page view of its website reached 3.46 million times, and reached 4.75 million times at peak hours.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2006, the net asset value of the Group attributable to the equity holders amounted to approximately HK\$3,977.5 million (2005: HK\$3,921.1 million), including cash and bank balances of approximately HK\$108.6 million (2005: HK\$98.1 million) which were denominated mainly in Renminbi and Hong Kong dollars. As at 31 December 2006, the Group's bank borrowings and other borrowings (including shareholders' loan) respectively were HK\$474.2 million and HK\$850.8 million





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(2005: HK\$930.8 million and HK\$1,277.1 million respectively). For the Group's bank and other borrowings, approximately HK\$225.4 million were bearing interest at fixed rates while approximately HK\$248.8 million were bearing interest at floating rates. The gearing ratio of the Group, measured on the basis of total bank and other borrowings (excluding shareholders' loan) as a percentage of equity attributable to equity holders of the Group substantially decreased to 11.9% (21.4% including shareholders' loan) as of 31 December 2006 from 23.7% (32.6% including shareholders' loan) as at 31 December 2005.



As at 31 December 2006, the Group's contingent liabilities were HK\$104.8 million due to the guarantees given in connection with credit facilities.

As at 31 December 2006, the Group's credit facilities were supported by the following:

- (a) charge over properties held for and under development with land lot no. K708-0005 at Liu Wan, Shekou, and shares in certain subsidiaries of the Company;
- (b) pledge of bank deposits of HK\$22.3 million;
- (c) charge over prepaid lease payment for leasehold land with a net carrying value of HK\$13.7 million;
- (d) personal guarantee given by Mr. Yu Pun Hoi;
- (e) guarantee given by a third party of RMB263.5 million;
- (f) pledge of certain interests in the Company by some shareholders; and
- (g) pledge of Sino-i shares to certain securities brokers, the total of which represents about 19.6% (2005: 13.8%) of total interest in Sino-i.



EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

As the majority of the Group's borrowings and transactions were denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate fluctuations was relatively insignificant. In general, the Group mainly utilized its Renminbi income receipt for operating expenditures in China, and did not use any financial instruments for hedging Renminbi bank borrowings during the year, and such borrowings were mainly used for Renminbi capital requirements in China.

EMPLOYEE

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. At 31 December 2006, the Group had approximately 7,457 employees (2005: 6,603 employees). The salaries of and allowances for employees for the year ended 31 December 2006 were approximately HK\$272 million (2005: HK\$58 million).





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PROSPECT

The sale of the first phase of The Peninsula has marked the success of the Company in property business. Furthermore, the progressive progress of the Guangzhou project also indicates that it will bring the Company in strong cash flow in the years to come.

The Company will maintain its successful business model in the first phase of The Peninsula for its property business, and also spend more energy to cope with the new regulations derived from the government's macroeconomic policies. The Company optimistically believes that development potentiality in the property market in China remains healthy and stable. The foregoing two property projects are expected to bring the Company in substantial profit in the next five years.



Meanwhile, the Company has been focusing on expanding its land reserve for continuing its property development business in the future, and maintaining a long term, stable and remarkable return. The Company will prudently expand its land reserve, and will develop it in an efficient manner.

Through its listed subsidiary, Sino-i, the Company will continue to focus on the IT application and culture and media in China.



CE Dongli, being the flagship of the IT division of the Group, will continue to develop new products and to increase its market share. Application products and services based on its own software solutions will further strengthen its leading position in the e-commerce sector.

The Company expects that the financial information market will keep on growing steadily in the future. Being one of the main participants in this market, Shihua has expanded rapidly by providing FOREX information for the banking sector, and currently has secured a major market share in this sector. Based on its experience in foreign exchange and futures information market, Shihua will launch such comprehensive solutions as interim or advanced terminal securities products, treasury e-products and etc. Having the advantage of more detailed professional information and analysis contents, and advanced technologies and service platform, Shihua is confident of becoming a leader in developing the financial information market in China. Moreover, financial governing authorities in China have placed financial reform as the top priority. The Company believes the market environment will improve significantly in the coming years, and has high confidence on better performance in its financial information business.



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In view of the distance learning sector, Chinese Dadi's service models, abilities and qualities have been highly recognized by the Chinese government, and Chinese Dadi is highly supported by the government policies and collaboration commitments. The Company believes that distance learning will become one of its key business sectors.

In 2006, the Company through Sino-i involved in the business of digital cinema development and operation in China. The initial ten cinemas established in the first quarter in 2007 have posted encouraging results. By running those ten cinemas, the Company have attained solid experiences in the industry, and developed a successful business model. The Company strongly believes that the huge market potential of digital cinema operation in China will offer excellent business opportunities to the Group in the next few years.

