



CHAIRMAN'S STATEMENT



In the past year, the Company continued to focus on its core business areas of corporate IT application services, financial information services, and distance learning services. Through mergers and acquisitions in the office application software sector, the Company further strengthened its overall IT business strategy. In the first quarter of 2007, the Company also launched the business of digital cinema chain in Guangdong province, ten cinemas have been put in operation in the first stage, which was well received by the market, and laid a firm foundation for further nationwide expansion.

The Company continued to grow on a steady basis, and achieved the targets, with distinct advancement in the management and technical teams and R&D capabilities.

In the course of business development, and mergers and acquisitions over the past years, there are some accumulated goodwill. Due to the change of business strategic plans, and for prudent financial management and truly reflecting the growth of business performance, a one-off write-off of accumulated goodwill generated from the provision of financial information services was taken place. Upon this historical issue was resolved, leading the Company to having less burden which in turn would provide a solid foundation for future rapid development.

1. IT MARKET DEVELOPMENT

According to statistics reported by China Internet Network Information Center (CNNIC) in January 2007, as at the end of 2006, the number of Internet users in China reached 137 million, of which 90.7 million were broadband users, and number of computers connected to the Internet reached 59.4 million. The report also revealed that there were 4,109,020 domain names in China, including names registered in .cn and gTLDs, of which 1,803,393 were domain names of .cn, and the total number of websites was 843,000.

In 2006, computer sales market in China reached RMB568.9 billion, increased by 15.6%; while software and IT services sectors grew 17.8% and 26.3% respectively. From 2007 to 2011, the computer market in China is expected to maintain a compound annual growth rate of 15.3%, achieving steady growth.



In IT services sector, the market scale reached RMB59.5 billion in 2006, increased by 17.8%. It is expected that the average growth rate will be at 25.2% per year over the next five years. For SME market, the overall market scale reached RMB145 billion in 2006. In the next three years (i.e. from 2007 to 2009), the market is expected to reach RMB172 billion, 204 billion, 242.2 billion respectively and to maintain a compound annual growth rate of 18.7%. The key market success factors in the IT services sector are innovative products, professional service, channel proximity and vertical and horizontal integration.



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2. BUSINESS DEVELOPMENT

Corporate IT Application Services

Industry Overview

In 2006, SMEs remained as stars in corporate IT application sector in China. The share of IT application services in total IT investment continued to increase. In view of overall industry profit decline, the growth of SME sector has become a unique highlight. IT vendors achieved stable and relatively impressive profit in SME sector. Given the unique features of SMEs – small operating scales and limited capital, IT application service models are gradually undertaking the mission of informatization development for SMEs.



The Company continues to focus on the development of application services in the IT industry by using the strategies of continuing expansion of sales network and enhancing technologies. The Company, through CE Dongli Technology Group Company Limited ("CE Dongli") and 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet"), has established a comprehensive sales network covering nearly 80 cities and a channel distribution system with more than 10,000 distributors over the past eight years.

The combined strength of CE Dongli and Xinnet in network size, service quality, efficiency and operation experience, is surpassing in the IT services sector in China. In-depth experiences in technological research and development and operations in the application service platform, have successfully laid the foundation for the Company's market leadership in the corporation application services sector.

Business Development

In the past year, the Company's corporate IT application services business continued to maintain stable and rapid growth. CE Dongli and Xinnet both had good performance. CE Dongli's revenue was increased by 41% and Xinnet's revenue was increased by 20%.



CE Dongli is one of the top five IT outsourcing corporations in China, competing with multinational corporations such as IBM, HP, CSC and EDS. The overall market in IT industry is expected to grow rapidly, and the Company believes that it is well poised to grasp the market opportunity, and will continue to achieve remarkable success in the years to come. According to IDC report, CE Dongli was ranked the 6th largest IT corporation in China in the second half of 2006 (it was at 10th place in 2005). For a corporation focusing on SME application services to receive this distinguished ranking, it proves that Sino-i's "IT application services business model" in China has been recognized by the market.

Also, CE Dongli and Xinnet, through its partnerships with CNNIC, Google, Sina, Sohu, Netease, TOM and the others, have generated growth and dominated majority market share in the domain name registration and online marketing. Online marketing, being a practical and effective marketing tool, not only enhances clients' endorsement of IT technologies but also advances market share and client relations, which in turn further strengthens the leadership position of the Company in the IT application services industry.





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In the coming year, CE Dongli will further develop corporate IT application services for vertical markets, develop e-commerce products for different industries and markets, and integrate internal management applications for providing total solutions for the industries. The Company will spend full force to develop new client base and increase client volume, and to identify potentialities of existing clients for maximizing client value.



Xinnet will endeavour to expand its basic businesses – identity authentication and storage management services, and to expand its market share in the related sectors. Base on the past experience, the Company has foreseen market opportunity in the corporate communication market, and accordingly started to develop the required communication platforms and products.

Financial Information Services

2006 marked the start of China's 11th Five-Year period, and was a prosperous year for economy and financial market in China. Encouragements derived from the successful implementation of the share-trading reform and the expectation of Renminbi appreciation, the Shanghai Composite Index rose to a historical high record. China's capital market



demonstrated an unprecedented vitality – funds raised on the Shanghai, Shenzhen and Hong Kong Exchanges through IPOs totaled over US\$45 billion, surpassing the US to become the world's second largest fund-raising place. While the financial market in China has proven its growing influence on the world economy and financial system, investors in China have also lifted their standards on financial information services. Investors have begun to recognize the importance of fundamental analysis, exchange of accurate information, and professional analysis. The value of financial information is increasingly being recognized by the investors in China.

北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited) ("Shihua"), a subsidiary of the Company, has developed its professional advantage after years of competitions in the financial information market. The management of the Company grasped the development trend of financial information industry, and set high professional standards out as Shihua's objectives and led to its commanding position in the market.

In 2006, Shihua launched a new product line, I-cube dual-monitor series, a state-of-the-art information terminal. Shihua was the first Chinese domestic financial information service provider authorized by the China Foreign Exchange Trading System & National Inter-bank Funding Centre for providing Chinese inter-bank market data. Shihua will integrate more in-depth researches, increase interactivity for enhancing its comprehensive financial information platform, and continue to guide the Chinese financial information standards to integrate to the international standards. While Shihua has developed its strengths in its business sector, it plans to expand its services from professional investment community to the general investment community, and to provide talented financial information services and products for the general investors.



Financial information industry in China is progressively standardized. However, the market continues to be dominated by software-oriented services, emphasizing technological functions instead of valuable and useful information and analysis, which leaves market development and advancement to require a period of time. Shihua, being a financial information service provider aims to develop the financial information market, has its strategic vision and expertise gained from long-term investment which are preliminarily recognized in the sector, but it is still on a challenging path.



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In 2006, China demonstrated strengthened efforts of integration into the world after entry into the WTO. Shihua will continue to seek strategic alliances with global well-known financial institutions, and strengthen its foothold in the local market. 2007 is an important year for both the full implementation of scientific concept of development and rapid construction of a socialist and harmonious society. The pursuit of proprietary innovations, and change of the advancement from economic and social development to scientific development will be key forces in advancing China's economic development. Shihua, being the provider of the first generation of information-based money management products in China, will fulfill its mission of making

improvements and enhancements continuously, and firmly use its expertise and professional standards in compliance with international standards to guide the development of financial information sector in China. Shihua strongly believes that its efforts will be recognized by the market and the society. Meanwhile, Shihua's technological direction is to integrate the latest international developments, and to use technology with cross-platform, cross-language, higher compatibility, efficiency and scalability for product development.

Distance Learning Services

In 2006, 北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited) ("Chinese Dadi"), a subsidiary of the Company, achieved greater improvement in the aspects of completion of product lines, comprehensive servicing system, and intensive market development. Based on its strong technological capabilities and educational resources, Chinese Dadi established alliances with education departments in more than twenty provinces and key cities, and entered into collaboration agreements with such departments which supported Chinese Dadi to promote its products in their respective regions. Chinese Dadi is a provider of three-dimensional online courses for the National Higher Education Self-Learning Examination Committee.



Chinese Dadi's e-learning cards are included in all of the learning materials for the self-examination participants published by the National Higher Education Self-Learning Examination Committee. In the past year, Chinese Dadi established a comprehensive learning support service system for providing higher quality services to the students.

In the coming year, Chinese Dadi's main strategy is to continue to promote its products and services, by focusing on its brand name, to the market. It will increase average revenue per user (APRU) by means of integrating B2C and B2B2C online business models and by focusing on its "deep digging" strategy – in-depth development of individual and group learning markets. Chinese Dadi will fully use its resources and advantages to develop a new business for catering the increasing demand for languages learning and management by the Internet users, and to become the first place for continuing education in China.

Office Software Products

In May of 2006, the Company successfully acquired 北京紅旗中文貳仟軟件技術有限公司 (Beijing Redflag Chinese 2000 Software Technology Company Limited) ("Redflag Chinese 2000"), a pioneer corporation specializing in designing



and producing software applications for office use in China, focusing on providing Chinese office software applications and related services for all levels of government offices, corporations and individual users. Redflag's main product, RedOffice, is the first domestically developed cross-platform software package, having such functions as word processing, spreadsheets, presentations, drawing tools, website development, and database management. Furthermore, there are multi-dialect versions in Uigur, Mongolian and Tibetan for those small tribes in China. RedOffice has been a direct competitor to Microsoft Office so far.



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RedOffice is the only software product bestowed the honour of "National Major New Product" by four ministries, and the office software package endorsed by the Ministry of Science and Technology for 2005 National Torch Program. RedOffice has been funded by the Ministry of Science and Technology, Ministry of Information Industry, and Beijing municipal government under various special program projects. In 2004, RedOffice was awarded the first prize of Scientific and Technological Progress Award by Beijing municipal government. In the campaign of using licensed software by various government departments in China, Red Office's market share is top on the list. The Company will reorganize its advantages in various aspects to put forward a product and service combined model for the basic software sector in China.



Culture and Media

After two years of industry research and analysis, the Company based on the Closer Economic Partnership Arrangement (CEPA), entered to digital cinema construction and its operation business



in 2007, for the purpose of promoting and developing the digital cinema sector. Up-to-date, ten cinemas have been in operation. With the experience gained in constructing and operating these ten cinemas, the Company has established new standards, which will definitely facilitate much the construction of digital cinema work in 2007 and in turn will benefit the cinema operation business. There are strong indications that 2007 will be a prosperous year for digital cinema industry in China, which will turn around the whole traditional cinema industry. Since the Company has already had its successful business models in the other sectors which can be used in this cinema sector, it is confident that it will play a key role in transforming cinema industry in China.

In 2006, the Company tried to develop a content integration strategy for new media (IPTV, digital TV, and the Internet etc.), and cooperated with several IPTV operators. In the Internet business, the Company has completed the technology development works, but it will continue to focus on exploring the industry related Internet media model. The Company plans to conduct large scale marketing activities in the coming year.

3. TECHNOLOGY DEVELOPMENT

In the area of technology development, the Company has adopted the strategy of integrating its own R&D to those ready-made applications. Based on an open source technology roadmap, the Company focuses on its own R&D; aggressively cooperates with third parties on areas of technology development, OEM of well-established products as well as mergers and acquisitions; and continues to learn and acquire industry experience for rapid expansion and enhancement of the product lines.





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In the past year, the Company made heavy investments in the areas of human resources, technology development, management development and quality control. The technical team was greatly increased in size to more than 800 professionals, and its capabilities were enhanced prominently. In the coming year, the Company will continue to further increase its investments in acquiring R&D professionals, re-organization of internal resources, technical human resources, and hardware facilities etc. The Company will further expand the scale of technical team, enhance product development expertise, and accelerate development process so as to launch more core products.



CONCLUSION

The Company is a technology-oriented group specializing in new generation IT services and cultural media. Its objective is to become a leading force in development of information technology and cultural media industries in China. The Company is fully confident of China's future IT industry, and will continue to expand all businesses through business development and mergers and acquisitions as well as advancement in technology R&D capabilities.

After eight years' development, the Company has set a foothold as the top ten IT service corporation in China, and will move forward steadily to achieving its objectives. The business strategies adopted by the Company are proven successful by referring to its achievements in the markets and sectors.

Thank you for your continued support, and look forward to having your continuous support in the Company's developments.



Yu Pun Hoi
Chairman

Hong Kong, 19 April 2007