

This past year, the Company's development in the IT sector progressed toward an established phase, while foundations in the information service, distance education, culture and media business segments were forged. As a result of a series of mergers and acquisitions and internal restructuring, the Company has advanced its strategic businesses in business information application services, financial information services, culture and media and education, on a group basis with diversified corporate development strategies.

### IT Application Services

As early as 1999, Company shareholders foresaw the tremendous development trend and business opportunities in the IT sector, and decisively targeted China's SME market to launch its business information application services, thus achieving a successful transformation of the Company's business focus. In the subsequent years, the Company has firmly developed and cautiously invested in this sector. As the Internet era rapidly progressed towards downturn, the Company's strategy and foresight steered the Company to achieve success relative to its peers and competitors. With CE Dongli Technology Company Limited ("CE Dongli") as the flagship of its nationwide business service network, the Company has dominated a solid market share in China's business information application service industry.

According to estimates, there are over 10 million SMEs in China, representing 99% of the China's total number of enterprises. This number is expected to rise along with China's rapid economic development. Prosperous economic growth inevitably leads to increasing market competition. Particularly upon China's entry into the WTO, in order to compete with large international corporations, domestic SMEs urgently need to raise their local competitive advantage. IT technology is therefore no longer just a cost-saving mechanism, but a key to competitive empowerment. SMEs will eventually become the largest investor for business information application service in China. Meanwhile, with the lowering of telecommunication costs, increasing recognition of information technology's advantages, advancement of application usage, in conjunction with the advantages of cost, convenience and upgradeability, information application services (ASP) will gradually become the ultimate choice and a mainstream product for SMEs.

The Company's shareholders accurately targeted SMEs during its initial transition into the IT industry, and have firmly adhered to the ASP strategy, based on precise forecast in market demand and development trend. Within the past few years, through the expansion of CE Dongli, the Company has broadened its national footprint to 41 branch offices, up to 3,000 employees and become the largest and most powerful sales and service network in China, both in geographical coverage as well as staff volume. CE Dongli provides basic information application services to about 50,000 SMEs, and dominates China's business information application service sector as a market leader.

To maintain CE Dongli's market leadership position, the Company has established a standardized and professionally managed operation, enhanced its branding strategy, and strengthened its competitive advantage. In the past half year, the Company completed CE Dongli's shareholding restructure, and will shortly enter the "Listing Tutorial Period" prior to CE Dongli's listing in China. The Company plans to list CE Dongli on China's main board in 2004, which will be the Company's first listed company in China. It will undoubtedly become a further driving force for CE Dongli's rapid growth, and in turn increase the Company's shareholder value.

To further strengthen the Company's market share in the business information application service sector, the Company acquired two prominent Chinese corporations in this industry, Beijing Xinnet Digital Communication Network Co. Ltd. ("Xinnet") and Beijing CCG Technology Co. Ltd. ("Beijing CCG"). Xinnet is a premium domain name registration and virtual hosting service provider, with 280,000 clients subscribing to its domain name registration services and over 50,000 clients for its virtual hosting service. Xinnet has a comprehensive nationwide sales network comprised of about 3,000 distributors. The acquisition of Xinnet injects its client base into the Company's current client pool for software and IT services. Xinnet's distribution network will also enhance the Company's nationwide network operation. By merging Xinnet with CE Dongli, both in the same sector, the Company dominates over 50% market share in the domain name registration and virtual hosting services sector in China. Beijing CCG provides supply chain management and distribution resources platform for advanced information service providers. Acquisition of Beijing CCG signifies the Company's major step toward a steady expansion into the advanced information application service sector to meet growing customer demands.

The series of acquisitions has expanded the CE Dongli's services from providing domain name registration, virtual hosting, web-site development, corporate communications, e-commerce and other basic services, to advanced information services provision, thus attaining the industry's complete cycle structure. This will facilitate business expansion, increase of market share, and strengthen the leadership position of CE Dongli in the business information application service industry. Pursuant to restructure plans upon completion of acquisitions, the Company's income from business information application services in 2003 is expected to be approximately RMB400 million. Consolidation of marketing, customer and product resources will lead to increased earnings; streamline technology equipment and IDC will bring about to operation cost cut, and financial integration due to acquisitions, will in turn improve the Company's shareholder return on investment.

In the coming year, the Company will further increase investment in the business information application service sector. In addition to advancing operation and management to increase subsidiaries' income and profit, the Company also plans to acquire more corporations in this sector to enhance the IT product and service content, including companies that possess advanced IT products and technologies, but lack a sales and service network. This will further increase market share and lead CE Dongli to become one of the largest SME information application service providers in China, within 3 to 5 years.

## **Financial Information Services**

Financial and economic information has become an essential investment tool for Chinese financial institutions, professional investors, economic and corporate strategists. China's financial investment tools are mainly software-based analytical instruments, based on information and market data that are not up to standard in reliability and consistency, thus inadequate to meet the professional users' real time and quality information requirements. The market is in need of an information-based comprehensive financial tool integrated with the latest technologies. With China's entry into the WTO, intellectual property protection are enhanced; laws and regulations are increasingly congruent to international legal practices; and less government interference have created a sound environment for development and future opportunities in the information service sector.

The Company discovered this market niche and emergent opportunity in the financial information sector, and acquired Beijing Shihua International Financial Information Company Limited ("Shihua") two years ago. Shihua Financial Information has forged a unique position within the financial services industry by providing an unparalleled information-based instrument, integrating information, data, analytical tools with the latest technology on a single platform. By providing instantaneous access to real-time financial information and data analysis, Shihua has transformed the financial information services industry from software-based analytical services and leveled the symmetry between information provider and users.

After two years, Shihua clients include 112 banks and branches with personal FOREX investment business services; 375 futures trading firms; 12 securities houses; 45 educational institutions; and 350 corporations, and about 60,000 terminals. Dominating about 85% of the futures market; and 65% of the Banking sector's personal FOREX information market, Shihua Financial Information has set the standard as the leading provider of accurate real-time financial information, data and analysis in China.

Shihua has established strategic partnership with Standard & Poor's, the global provider of independent credit ratings and a leading international source of valuation, analysis and opinions. Shihua is Standard & Poor's first partner in China and the first to bring their information products to China. This partnership and co-branding of products will broaden Shihua's international information scope, connect the domestic investors to the international financial marketplace, bridge the information divide, and further its dominance and authority in China's financial information community.

As information becomes crucial to economic and corporate advancement, Shihua products will establish an even more commanding foothold in the marketplace. Shihua Financial Information will grow to be an indispensable resource amongst financial investors, economic and corporate leaders, and become the most dependable and authoritative financial information service provider in China.

### Distance Learning and Applications Services

As telecommunication costs lower and network application services improve, distance learning sector has vast development potential, as it is a welcomed new education trend to the student community. Given the Company's extensive knowledge and accumulated experience in the IT industry, we have closely monitored and cautiously invested in the development of distance learning, which integrates both the IT and education industry. After three years, the Company's subsidiary, Beijing Chinese Dadi Distance Education Company Limited ("Chinese Dadi"), has acquired major market share in the areas of providing learning aid for self-learned students attending domestic higher education examination, and Chinese language training for foreign students. It has 120,000 registered users and 50,000 on-line students. Chinese Dadi also provides distance learning applications services for government institutions, bankers, major corporations, becoming one of the main distance learning application services providers in China. In a large-scale Sino-US educational cooperation effort, the Sino-US online language learning project, Chinese Dadi was awarded a tender as it competed with 13 other major domestic distance learning providers. Just one part of the project, the production of learning materials, is expected to bring total income of RMB46 million in the coming years. This success earmarks the Company's investment in distance learning sector has progressed toward a development phase.

### Culture and Media

The culture and media industry is regarded for its fast and high return on investment. With extensive experience and knowledge related to this industry, the shareholders of the Company have closely observed the Chinese media development in China. After China's entry into the WTO, such domestic culture and media businesses as advertising, distribution, and other media businesses will gradually open up. The Sixteenth National Congress of the Communist Party of China has also provided strong support for deeper cultural reform and rapid cultural development. As China's policies of opening wider to the outside are implemented, new opportunities in China to invest in culture and media businesses will arise. The Company will maximize

on its shareholders' extensive experience in culture and media operations and an essential network of media professionals, gradually increase investment in this industry. Coordinating amongst subsidiaries, the Company will integrate 2-dimension media, electronic media, and audio/video media into a diversified, multi-regional, multimedia business platform, build up the Company's market status in the culture and media industry.

### **Future Prospect**

In the coming year, the Company will continue to focus primary business development in the areas of business information application and financial information services, and coordinate business expansion in the distance learning and culture and media sectors. It will fully utilize the market standing that each subsidiary has achieved in its individual sector; continuously strengthen and expand market share so as to maximize shareholders return.

I would like to thank all shareholders for your confidence in our management, and sincerely look forward to your continuous support in the future.

**Yu Pun Hoi**

*Chairman*

Hong Kong, 30 July 2003