

# CHAIRMAN'S STATEMENT

During the past year, the Company completed its restructuring plan with its subsidiary, Nan Hai Corporation Limited ("Nan Hai"). After the restructuring, the Company's business are concentrated in the areas of enterprise IT application services, financial information services and distance learning and application services, and an overall development strategy in the IT industry. The Company continued its expansion on a steady growth pace, and achieved all the targets defined in the previous financial period. The management restructure began in 2004, has strengthened corporate management, created strong growth and financial performance with increased cash flow, particularly during the months of November and December of 2005 and the first quarter of 2006.



Office Tower



A smile showing sincerity, belief and persistence

**Ms. Chen Dan**  
General Manager of  
Sino-i Technology Limited

## 1. IT MARKET DEVELOPMENT

According to statistics reported by China Internet Network Information Center (CNNIC) in January 2006, active Chinese Internet users reached 111 million, and computers connected to the Internet reached 49.5 million; an increase of 18.1% and 19.0% from a year ago respectively. The report also indicated 2.592 million registered domain names, totally 0.694 million websites and 74.39 million IPv4 addresses in use, the third largest in the world.

While forecasts predict a global IT market decline to 6.5% CAGR (Compound Annual Growth Rate) from 2005 to 2009, China's IT market annual growth rate of 17.1% has drawn global spotlight. The IT market reached RMB472.6 billion in 2005, and is expected to reach RMB1 trillion by 2010. IT investment in China was about RMB1.8 trillion in the past five years and estimated to reach RMB3.7 trillion in the next five years. The IT service industry expanded even more forcefully in China, as market income reached USD5.36 billion, reflecting 22.9% growth. From 2004 to 2009, the industry is likely to maintain 21.6% average annual growth, under which IT outsourcing market will maintain up to 35.7% annual growth rate, demonstrating robust market potential. In view of the IT industry's changing development in the past twenty years, including the transformation from hardware driven to a software driven generation, we have entered the new service driven era.

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## 2. BUSINESS DEVELOPMENT

### (a) Enterprise IT Application

#### Industry Overview Brief

With the dynamic development of China's economy, SMEs have become China's main economic force. According to statistics<sup>1</sup>, SMEs in China account for more than 95% of all enterprises in the country, and contribute 51% to total GDP as well as 60% of China's total exports. In light of the keen domestic and international market competition, developing e-commerce and enterprise IT application services have become a critical factor for the development of SMEs. The Chinese government also places importance in developing the enterprise IT application and e-commerce sectors. The "11th Five-Year Guidelines for Economic and Social Development", stated that during the next five years, informatization will facilitate industrialization, to further develop information resource, e-commerce, and the Internet industry, to advance inter-corporation e-commerce as well as third party e-commerce trade and services targeting SMEs, and key industries.



China E-Commerce Application Strategy Conference held by CE Dongli Group with collaboration of Google

SMEs have unique characteristics including mass volume; extensive in geographic regions; wide industry scope; small in size; and limited in capital, human resource, technology and management. They commonly lack the understanding of IT and the Internet. Their IT application level is comparatively low, and informatization is still at an early stage. IT application service model is the best IT model for SMEs. Recently large international corporations such as IBM, SAP and Oracle have weighted heavily the SME market and IT application service market. Latecomer CRM (Customer Relations Management) application service provider Salesforce.com also challenged traditional CRM industries, expecting its

2006 revenue to reach US\$285 million and annual growth to reach 70%<sup>2</sup>. In China, SME's IT application service market is expanding and maturing, indicating strong market potential.

In the SME IT application service sector, sales network and technology-lead strategies are key success factors. Many unsuccessful IT corporations have failed to grasp the importance of sales strategy and market position. The Company has always placed application service as the key direction of our IT industry development strategy, dedicated to expanding sales networks, and advancement in technology. After seven years, the Company's IT sales network has achieved peak status in China. Our experience in the technology development and management of the application service platform has successfully established our leadership position in the relevant sectors.

<sup>1</sup> Source from: 電腦商情報「中小企業IT採購」《SMB市場巨大開拓製造企業的信息之路》

<sup>2</sup> Source from: 《Salesforce要放棄中國市場嗎?》天極網 · 18 October 2005



CE Dongli's cultural incarnation-transcends limits

# CHAIRMAN'S STATEMENT

## Business Brief

### *Enterprise Application Services*

In the past year, through 中企動力科技集團 (CE Dongli Technology Group) jointly formed by the Company's subsidiaries - CE Dongli Technology Group Company Limited ("CE Dongli"), 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited "Xinnet") and 廣州漢鑫商務科技有限公司 (Easy-Trade Technology Services Limited "Easy-Trade"), the Company began comprehensive business development and achieved stable revenue income as well as rapid growth. CE Dongli's in-house developed ASP e-commerce platform, has received strong market response, and established its client base in the ASP sector with more than 15,000 corporate clients in October 2004. CE Dongli also made remarkable progress in the corporate email sector, achieving one of the highest revenue in the industry. CE Dongli also established strategic partnership with Google and Lenovo to jointly develop the e-commerce marketplace in China.

Also, CE Dongli's and Xinnet, through its partnership with CNNIC, Google, Sina, Sohu, Netease, TOM.com and others, have generated growth and dominated majority market share in the online marketing and online advertisement sectors. Online marketing as a practical and effective marketing tool, not only enhanced client appreciation of IT technology, but also advanced market share and client relations. All further strengthened the leadership position of the Company in the IT application service industry.

In the coming year, CE Dongli will further develop IT application services for vertical markets, integrating internal management application and e-commerce services to provide total solutions for the industries. The Company will continue to develop new client base, increase client volume and potential, and maximize client value. Xinnet will expand its identity authentication and storage management services and its related market foothold. Also, through past experience, the Company foresees market opportunity in the enterprise communication market, and has launched initiatives to develop the required communication platforms and products, with new IP communication services to be launched in 2006.



CE Dongli Group and Lenovo – signing ceremony



CE Dongli's team in Australia

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## *Financial Settlement Services*

In the recent years, China's bank credit card market has advanced rapidly. The increase of bank credit card transactions has established the requirement for financial settlement services. International banking industry trends indicate that banks tend to focus mainly on bank credit card distribution services, service reception environment construction and client services to a third party professional institution. Professional services have become the driving force in the reception service sector. For example, in the US in 1989, the top ten collection institutions maintained a 49% market share. By 2003, the market share rose to 83%, indicating a market integration due to professional service increase in categorization, and the majority of participants were professional institutions instead of credit card distributing banks.



Shihua Financial Information Interface



Information world demonstrating perfection

**Mr. Cheng Chih Hung – General Manager (right)**  
**Ms. Bettina Yang – Deputy General Manager (left)**  
**Ms. Luo Dan – Controller of Information Centre (middle)**  
**Beijing Shihua International Financial Information**  
**Company Limited**

In the past year, Easy-Trade's core business under the collaboration with China bank consortium was affected by non-market competitive factors due to the consortium subsidiary's monopolistic advantages. However, Easy-Trade continued to expand its settlement and collection professional service and established strategic alliance with China Merchants Bank, one of the top commercial banks in China, to jointly develop nationwide collection services. In the coming year, Easy-Trade will continue to expand its foothold in this sector, establish its brand name in the settlement and collection service sector.

## **(b) Financial Information Services**

China's economy continued a rapid growth in 2005, increasing its influence on the global economy and financial systems. As China's investors increase their knowledge and requirements on fundamental analysis; information exchange; and professional analysis, financial information services will be more valued by investors.

In 2005, China's currency reform led to changes in the retail and enterprise FOREX investment services. Information services for the FOREX investment sector further increased market prospective. 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 achieved increasingly positive return from investment in the past two years, developing rapidly in the bank FOREX information market, and dominating a majority market share. Shihua is also expanding industry information services based on GICS (Global Industry Classification Standard), with focus on terminal and web services for key industries of the economy.

China's information industry continues at an underdeveloped and unregulated stage, with a proper understanding of information value not yet realized. The market continues to be dominated by software oriented services, emphasizing technology instead of information and analysis, which leaves market development and advancement to require a period of time. Shihua, as information service provider aims to develop the information market, has the strategic vision and long-term investment confidence and expertise, but continues on a challenging path that will require patience. However, we will remain dedicated in our direction.



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In the coming year, Shihua will continue to develop a comprehensive financial information platform, supplement interactive, multimedia services, and enhance information quality, depth and standards. We will continue to establish strategic alliances with international financial information institutions, to solidify our brand and commanding position in the domestic information market. Shihua will also integrate cross-platform, cross-language, efficient, reliable, scalable state-of-the-art technologies to develop a LINUX multimedia platform, to ensure rapid development and delivery of Shihua's product series. Shihua will continue to integrate resources to continue to develop futures, FOREX, industry information services with in-depth professional information and analysis, state-of-the-art technology and service platform. Shihua will also enter the China securities information market and strive to become a dominate and innovative force in China's financial information service industry development.

## (c) Distance Learning and Application Services

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"), achieved advancement in product, service network, market expansion in 2005, registered users increased by 390,000, repeated users increased by 25% compared to 2004. Incorporating strong technology capability and large teaching resources, Chinese Dadi has designed education platforms for government, institutions, and large corporations, customized course studies, and responsible for many national levels educational technology service projects, including Sino-US network and Great Wall Chinese Language projects.

In the coming year, Chinese Dadi will restructure its operation management system and reposition brand development strategy. Chinese Dadi will also undergo a reorganization to increase investment in the long-distance learning sector, and transform business model from a technology based service to online operation through B2C and B2B2C business models; develop individual and group learning market as well as increase ARPU (Average Revenue Per User).

## 3. SALES NETWORK

After seven years, through CE Dongli and Xinnet, the Company has established a sales office network in more than 60 key cities and a network of more than 8,000 distributors. The combined scope, quality, efficiency and operation experience has achieved record status in China's IT service sector.

The Company is in the process of implementing an online direct sales system embedded in enterprise portals, and establishing a franchise marketing system as well as building a large client marketing system servicing large corporations, industry clients, institutional clients and government departments. We are also planning a service marketing model to increase repeated customer volume, further solidify our leading position in this area.



Versatile IT professionals

**Dr. Zhang Bin – Technology Development Deputy General Manager of CE Dongli Group (middle)**  
**Mr. Hu Guang Bin – Chief Technology Officer (left)**  
**Dr. Sun Xiao Bin – Multi-media Laboratory (right)**



Good communication and close cooperation  
**Ms. Bai Yun – Deputy General Manager of Chinese Dadi (middle)**



Strategy development and well-planned ahead  
**Mr. Yu Pun Hoi – Chairman of board of directors of Sino-i (left)**  
**Ms. Chen Dan – General Manager (middle)**  
**Mr. Yu Fan – Deputy General Manager (right)**



Mr. Yu Fan makes his speech in the first anniversary conference of SME e-commerce applications

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## 4. TECHNOLOGY DEVELOPMENT

In the area of technology development, the Company has implemented an domestic R&D and application integration strategy. Based on an open source technology roadmap, we will focus on domestic R&D, but also consider technology cooperation, OEM of proven products as well as mergers and acquisitions. If opportunities arise, we will continue to learn and acquire industry experience to rapidly expand and enhance our product line.

In the past year, the Company has made large investments in the areas of human resources, technology development, management, and quality control. The technology team has greatly increased in size, more than 800 staff, as well as overall capability. In the coming year, the Company will continue to increase investment in internal resource integration, technology human resource, and hardware investment and to expand our technology team, enhance product development expertise, accelerate development process and launch more core products.



Delightment for the supreme products  
**Dr. Zhang Bin and his technical team**



Bright and spacious IDC room



Focus, Professional and Dedicated  
**Ms. Lin Chuan Ju**  
General Manager –  
Network Direct Sales Department  
Sino-i Technology Limited

## 5. CUSTOMER RELATIONS

In the coming year, the Company plans to invest in the construction of a Group Call Centre, to gradually integrate all the subsidiary customer relation networks, to establish a standardized customer-centered customer service standard, achieve data integration and knowledge management, workflow rationalization, customer life cycle management, customer satisfaction management, customer loyalty and retention plan, to enhance overall customer relationship, and to create more customer value.

## 6. MANAGEMENT

In the past two years, the Company has successfully executed a management realignment. We have built a strong management team consisting of professional managers and established a standardized management system. A transparent cost-control mechanism has realized a more effective cost structure, reinforced a performance management and execution-oriented culture, which has fundamentally optimized the Group's operation and management efficiency.

Human resource is the foundation of our management system. In the future, we will continue to place emphasis on cultivating and retaining professionals to strengthen our management team. We will implement a group management hierarchy with direct line of commands; through the integration of objectives, budgets and performance management, strengthen the management system and achieve the Group's structural growth.

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## 7. M&A AND COOPERATION STRATEGY

Mergers and acquisitions have always been a key strategy of the Company. In the past years, CE Dongli and Xinnet achieved immense success through mergers and acquisitions. In 2006, if opportunities arise, the Company will accelerate its M&A activities, particularly in technology oriented companies, to fully integrate industry chain resources, increase market share, strengthen technology expertise. At the same time, the Company will continue to establish cooperation with domestic and international corporations, and to solidify our market leadership position.

## 8. INTERNET BUSINESS

We have studied and analyzed the Internet industry closely for the past years. Accumulating many years of IT and knowledge industry experience, we are confident that we have more accurate analysis and understanding of the profit source, business model, risk and opportunities of this sector than other industry participants. Based on the core competitive advantage established by our sales network and technology development in the past years, we will begin to build a new generation of Internet businesses. In the coming year, the Company will take advantage of the basis provided by our successful reform in the past two years, and will develop an Internet media platform to set the foundation for a scalable culture and media business.



CE Dongli's work norm – better achievements are derived from putting more efforts



Young, vigorous and creative Internet team



Understanding from peaceful mind, including his full understanding of his career and life  
**Mr. Chen Ming Jie**  
 General Manager – Communication Service Department  
 Sino-i Technology Limited

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## CONCLUSION

The Company is a new generation technology-oriented IT service corporation. Our objective is to become the leading brand in China's information industry as well as the dominant force in the industry's development. After seven years, we have fully grasped the pace and direction of the development trend, and set a foothold in the Top Ten IT Service Corporations in China. Achieving leadership position in the market and industry has proven our strategy successful. We look forward to the continued support of our shareholders, and to continue to create shareholder value.



First of May Conference – The supreme leading team brings with fast development of CE Dongli



Accountable, Talent, Diligent  
**Mr. Yu Pun Hoi**  
**Chairman of the board of**  
**directors of Sino-i Technology**  
**Limited**

**Yu Pun Hoi**  
*Chairman*

Hong Kong, 20 April 2006

<sup>3</sup> Source from: IDC《2H 2005 IT Services Tracker》· April 2006