

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATION REVIEW

The Group is principally engaged in corporate IT application services, financial information services and distance learning and application services. Turnover for the year was HK\$496,700,000 (2004: HK\$571,200,000) and a net profit of HK\$264,000,000 (2004: HK\$82,600,000) was recorded. The net assets value of the Group amounted to approximately HK\$1,966,900,000, representing a value of HK\$0.1 per share.

During the year, the Company successfully completed a strategic business realignment and reorganisation program with its subsidiary company, Nan Hai Corporation Limited ("Nan Hai" HKSE 0680). Upon completion of the structuring, Nan Hai focuses on the property investment and development business in China and through its listed subsidiary, the Company, to continue participating in the IT business. As part of the business realignment process, with CE Dongli Technology Group Company Limited ("CE Dongli") as the flagship, complemented by 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 consolidated these 3 business entities into one, and strove to create more synergies within the Group in terms of sharing of resources, distribution capabilities and cost efficiency in a move to strengthen its leading position in the IT industry in China.

In addition, the restructured group also allows investors to make better investment decisions, as each company's performance will be more clearly reflected. This in turn will have a positive impact on the Company's brand recognition as well as increase in investor understanding and trust in the Company's business.



Professional advices given to China IT application services market

**Mr. Yu Fan**  
**Deputy General Manager of Business and Strategy Development**  
**Sino-i Technology Limited**



Confidence in generality of education in China

**Dr. Wu Fa Ti**  
**General Manager of Distance Learning Department**  
**Sino-i Technology Limited**

## Corporate IT Application Service

This business division offers IT application services to SMEs in China, and continues to post strong performance during the year. This division recorded a revenue of approximately HK\$422,000,000 (2004: HK\$378,200,000) and a segment profit of approximately HK\$113,100,000 (2004: HK\$89,800,000).

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In the mid of 2005, the Company founded 中企動力科技集團 (CE Dongli Technology Group) with its subsidiary company, CE Dongli, as the flagship and among others, Xinnet and Easy-Trade as its group members. The Group underwent a deep integration on various aspects including strategy, marketing, product R&D and operation, thus achieving resources sharing and synergies, decreased in overall operating cost, and enhancement in operating efficiency.

## *CE Dongli*

According to the research report issued by IDC, CE Dongli ranked number twelfth in Chinese IT service market, the second in Chinese IT outsourcing service market and ranked top in PRC web hosting market in 2004. In 2005, the performance of CE Dongli continued to maintain a stable growth. In November and December, its monthly turnover surpassed RMB62,000,000 for 2 consecutive months. Meanwhile, CE Dongli has significantly strengthened its marketing efforts, product development and technical strength. Through the strategic cooperation with Google and Lenovo, CE Dongli has enhanced its influence and brand recognition in the market.

With its outstanding performance, CE Dongli obtained various awards in the industry such as "China's Top Internet Application Service Brand Name in 2005", "China's most trusted e-commerce platform by medium and small enterprises in 2005", "User's Most Satisfied Internet Application Service Platform", "User's Most Satisfied Internet Application Service Provider" and "User's Most Satisfied Internet Service Provider" and "User's Most Satisfied e-commerce Platform", and obtained "China's IT Innovation Enterprises Reward in 2005". Ms Chen Dan, the general manager of CE Dongli, was selected as "2005中國IT十大財經人物 (China's Top 10 Financial Persons in IT Industry in 2005)" and "2005中國信息產業年度新銳人物 (China's Annual New Talent in Information Industry in 2005)".

## *Xinnet*

In 2005, Xinnet further defined its market position as a corporate Internet basic application service operator. It has opened 23 branches across the nation and actively expanded agent distribution channel. Xinnet currently has more than 8,000 distributors.



Hi-tech standard IDC room



Momentum songs marking the spirit of persistence of energetic team spirit

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In November and December 2005, Xinnet monthly turnover surpassed RMB10,000,000 with a growth rate which we believe was above average rate in the industry. In addition, Xinnet ranked top in both increase in number of new CN domain name registrations and ownership of CN domain name in 2005, ranked the twenty-second among more than 300 global service providers certified by Internet Corporation for Assigned Names and Numbers (ICANN), and ranked the first among registration service providers in the Great China Region. Xinnet also achieved rapid growth in virtual mainframe/website hosting and enterprise email businesses. According to the statistics of the world famous virtual mainframe research institution "Webhosting", the number of XINNET virtual mainframe was ranked the first among Chinese service providers. Xinnet was also selected as "2005中國十大企業郵箱推薦品牌 (China's Top 10 Enterprise Email Recommended Brand in 2005)" and "2005年中國互聯網基礎服務最佳渠道服務商"(China's best channel service provider of Internet basic service in 2005)".

## Easy-Trade

Easy-Trade was mainly engaged in providing commercialisation of bank credit card service. At present, it has established long term business cooperation relationship with well-known banks and financial institutes such as

China UnionPay, CITIC Industrial Bank, China Merchants Bank, Bank of China, HSBC, etc. Among which, its cooperation with China Merchants Bank included conducting settlement and collection of bills throughout the nation, which marked Easy-Trade has become one of the dominant enterprises in domestic financial settlement professional service field. During the year, Easy-Trade gradually expanded to other regions throughout the country with Guangzhou as the centre, and opened 8 branches for aggressively expanding its operation service network across the nation.



Remarkable achievements derived from endeavours

**Mr. Hsiao Hsu Ching**  
IT Basic Services Department  
Sino-i Technology Limited

## Financial Information Service

During the year, this business division posted a turnover of approximately HK\$39,500,000 (2004: HK\$78,500,000) and a segmental profit of approximately HK\$3,700,000 (2004: HK\$22,400,000). The decline in both turnover and operating profit was mainly the result of an internal business realignment within the IT application business above. Several system integration projects which were once managed by 北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited "Shihua") is now shifted to CE Dongli.



Sharing of professionalism on Internet

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In 2005, Shihua continued to focus on professional financial information service business. Through quality information exchange, professional contents and analysis and real-time information delivery, Shihua has contributed significantly to the standardisation of Chinese information market and advancement of information industry standards.

During the year, Shihua has ride on its continuous development of energy futures products, and with more thorough professional information and analysis content, advanced technology and a new platform, entered into the area of securities and related industries, and launched a series of industry specific information products designated for raw material suppliers, manufacturers and spot traders. In order to make the products more suitable for various industry professionals, Shihua has designed various industry-specific end products, network products and services that focused on several industries which have a great influence on national economy based on international industry system classification. Meanwhile, Shihua has also provided information service and training to non-professional investors such as mock trading system and teaching materials to colleges and universities students with an aim to train up future professional investors.

As at the period of the year, Shihua has provided services to near 50,000 terminals for 112 bank headquarters/branches which conducted personal foreign exchange business, 375 futures companies, 12 securities companies, 45 colleges and universities, and 350 enterprises. Shihua is believed to command a market share of 85% in the futures market and 65% in the banking sector for providing personal FOREX information market in China, making it the most dominant financial information service provider in China.

## Distance Learning and Application Services

Turnover for this business division was approximately HK\$32,500,000 (2004: HK\$71,300,000) and a segmental profit of approximately HK\$12,600,000 (2004: HK\$53,200,000) was recorded. The decline in both turnover and operating profit was due to the completion of some large contracts during the year.

In 2005, 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) achieved periodic development results. It has developed more than 300 education software for customers, established broad cooperation with more than 20 authoritative educational institutions for recruit and examination at provincial and municipal level across China, and established branch offices in six major cities of China. Its registered users of distance learning increased by 390,000 from last year, and through improvement and innovation in technology and content, students' repeated buying ratio also increased by 25% compared with 2004.



Introducing cyber technologies to the Company  
**Dr. Zhang Bin**  
 Deputy General Manager of  
 Technology Development  
 Sino-i Technology Limited

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2005, net assets value of the Group amounted to approximately HK\$1,966,900,000 (2004: HK\$4,441,500,000), including cash and bank balances of approximately HK\$65,500,000 (2004: HK\$52,200,000), which was denominated mainly in Renminbi and Hong Kong dollars. The Group's aggregate borrowings decreased to HK\$56,400,000 (2004: HK\$406,000,000), including approximately HK\$22,300,000 were bearing interest at fixed rates while approximately HK\$34,100,000 were bearing interest at floating rates. The decrease in borrowings is mainly due to net repayment of approximately HK\$13,900,000. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity, decreased to 3.1% as of 31 December 2005 from 11.7% as at 31 December 2004. Such drop is mainly due to the aforesaid reduction in borrowings. The Group's contingent liabilities at 31 December 2005 were HK\$229,000,000, (2004: HK\$165,200,000) due to the guarantees given in connection with credit facilities.

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As at 31 December 2005, leasehold land and its construction cost with a net book value of approximately HK\$15,300,000 (2004: HK\$13,500,000).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

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



Sincere communication between Mr. Yu and employee



Well-planned and Efficient  
**Ms. Liu Rong**  
Deputy General Manager of  
Media and Culture  
Sino-i Technology Limited

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## EMPLOYEE

The Group employs and remunerates its staff based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include 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 2005, the Group had approximately 6,562 employees (2004: 8,422 employees). The salaries and allowance of employees for the year ended 31 December 2005 was about HK\$212,700,000 (2004: HK\$213,600,000).

## PROSPECT

Looking ahead, the Company will further realign its different business entities to enhance overall operating efficiency and to strengthen its dominant market position in all respective business areas. The Company will continue to invest and expand all existing business segments for capturing the advantages of these rapidly growing markets. If opportunities arise, the Company will also consider expanding its market share in each of its respective business area through merger and acquisitions, a move to further strengthen its market position and to maximise value for all shareholders.



Exquisite woman Exquisite work  
**Ms. Bettina Yang**  
**General Manager of Network  
Financial Media Department**  
**Sino-i Technology Limited**



"Do the Best" – Standard of performance for Shihua  
**Mr. Cheng Chih Hung**  
**General Manager of Financial Information  
Services Department**  
**Sino-i Technology Limited**

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Strong product and technology support will enable the Company to fully leverage the efficiency of its established nationwide network. Therefore, in the coming year, the Company will vigorously expand its technical team, enhance R&D strength, accelerate product development process, and rapidly extend product lines.

Meanwhile, the Company will establish a call centre which will integrate the customer resources of the Group and establish a standardised customer relationship management platform for improving customers' satisfaction and loyalty and enhancing overall competitiveness.

The Company also aims to enter into the rapidly growing culture and media industry in China given our strong foothold in the IT area and advantages in technology know how. The Group is looking at opportunities in developing Internet media business with innovative ideas and management resources, and gradually built up a sustainable and extendable cultural and media business development model based on and driven by such development.

The Company is planning to construct our own headquarters in the Beijing Economic and Technological Development Zone: "Digital Manor". The construction work is expected to be finished by the end of 2007.

The Company will continue to focus on all its existing businesses. Continue to strengthen and expand our leadership position so to achieve maximum shareholders' value.



Making art for life  
**Ms. Lam Pou Lin Deborah**  
 General Manager of  
 Dadi Entertainment Limited



Digital manor for cyber people



Spokesman of CE Dongli – the technical results of IT application services  
**Mr. Hu Guang Bin**  
 Chief Technology Officer of CE Dongli