



2006

INTERIM REPORT

中期報告 ▲

中國數碼信息有限公司
Sino-i Technology Limited

股份代號: 250
Stock Code: 250

INTERIM RESULTS

The directors of **Sino-i Technology Limited** (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006, together with the comparative figures for 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the six months ended 30 June 2006

| | Notes | For the six months ended | |
|-------------------------------------|-------|--------------------------|-----------|
| | | 30 June | |
| | | 2006 | 2005 |
| | | HK\$'000 | HK\$'000 |
| Revenue/Turnover | 3 | 301,810 | 285,912 |
| Cost of sales and services provided | | (42,413) | (33,172) |
| Gross profit | | 259,397 | 252,740 |
| Other operating income | 4 | 2,741 | 1,457 |
| Administrative expenses | | (168,117) | (193,041) |
| Depreciation and amortisation | 5 | (12,183) | (9,391) |
| Other operating expenses | | (7,644) | (5,683) |
| Profit from operations | 5 | 74,194 | 46,082 |
| Finance costs | 6 | (5,242) | (4,553) |
| Share of results of associates | | 1,845 | 673 |
| Profit before income tax | | 70,797 | 42,202 |
| Income tax expenses | 7 | (9,503) | (627) |
| Profit for the period | | 61,294 | 41,575 |

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

(continued)

For the six months ended 30 June 2006

| | Notes | For the six months ended 30 June | |
|--|-------|-------------------------------------|------------------|
| | | 2006 HK\$'000 | 2005 HK\$'000 |
| Attributable to: | | | |
| Equity holders of the Company | | 54,895 | 46,961 |
| Minority interests | | 6,399 | (5,386) |
| Profit for the period | | 61,294 | 41,575 |
| | | HK cents | HK cents |
| Earnings per share for profit attributable to the equity holders of the Company during the period | 8 | | |
| – Basic | | 0.276 | 0.236 |
| – Diluted | | N/A | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

| | | (Unaudited) | (Audited) |
|--|-------|--------------------|-------------|
| | | 30 June | 31 December |
| | | 2006 | 2005 |
| | Notes | HK\$'000 | HK\$'000 |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 49,473 | 43,331 |
| Prepaid land lease payments under operating leases | | 12,743 | 12,736 |
| Interests in associates | | 29,768 | 27,947 |
| Other investments | | 324 | 324 |
| Properties held for and under development | | 454,794 | 451,903 |
| Goodwill | | 324,330 | 324,330 |
| Other intangible assets | | 31,464 | 36,598 |
| Total non-current assets | | 902,896 | 897,169 |
| Current assets | | | |
| Inventories | | 3,369 | 3,855 |
| Properties held for and under development | | 285,396 | 282,243 |
| Investments at fair value through profit or loss | | 2,436 | 4,977 |
| Trade receivables, other receivables and deposits | 9 | 1,121,711 | 1,014,478 |
| Cash at banks and in hand | | 29,741 | 65,458 |
| Total current assets | | 1,442,653 | 1,371,011 |
| Current liabilities | | | |
| Trade payables, other payables and accruals | 10 | 192,373 | 185,842 |
| Provision for tax | | 33,501 | 11,936 |
| Amount due to a director | | 5,051 | 5,589 |
| Amounts due to shareholders | | 5,006 | 5,006 |
| Amount due to a minority shareholder | | 12,000 | 12,000 |
| Amount due to ultimate holding company | | 328 | 24,572 |
| Bank and other borrowings | 11 | 60,726 | 56,371 |
| Total current liabilities | | 308,985 | 301,316 |
| Net current assets | | 1,133,668 | 1,069,695 |
| Total assets less current liabilities | | 2,036,564 | 1,966,864 |

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

As at 30 June 2006

| | | (Unaudited) | (Audited) |
|--|-------|--------------------|-------------|
| | | 30 June | 31 December |
| | | 2006 | 2005 |
| | Notes | HK\$'000 | HK\$'000 |
| Non-current liabilities | | | |
| Bank and other borrowings | 11 | 230 | – |
| Total non-current liabilities | | 230 | – |
| Net assets | | 2,036,334 | 1,966,864 |
| EQUITY | | | |
| Equity attributable to Company's equity holders | | | |
| Share capital | 12 | 199,145 | 199,145 |
| Share premium | | 39,194 | 39,194 |
| Other reserves | | 79,976 | 68,918 |
| Retained earnings | | 1,546,383 | 1,496,553 |
| | | 1,864,698 | 1,803,810 |
| Minority interests | | 171,636 | 163,054 |
| Total equity | | 2,036,334 | 1,966,864 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

For the six months ended 30 June 2006

| | For the six months ended 30 June | |
|--|---|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Net cash (outflow)/inflow from operating activities | (24,822) | 19,967 |
| Net cash outflow from investing activities | (11,508) | (51,475) |
| Net cash outflow from financing activities | (366) | (200) |
| Decrease in cash and cash equivalents | (36,696) | (31,708) |
| Cash and cash equivalents at beginning of the period | 65,458 | 52,244 |
| Effect of foreign exchange rate changes, on cash held | 979 | – |
| Cash and cash equivalents at end of the period | 29,741 | 20,536 |
| Analysis of balances of cash and cash equivalents | | |
| Cash at banks and in hand | 29,741 | 20,536 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 30 June 2006

| | Share capital | Share premium | Capital redemption reserve | Capital distribution reserve | General reserve | Exchange reserve | Retained earnings | Share option reserve | Total equity attributable to holders of the Company | Minority interest | Total equity |
|--|----------------|---------------|----------------------------|------------------------------|-----------------|------------------|-------------------|----------------------|---|-------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2005 | | | | | | | | | | | |
| as originally stated | 1,991,450 | 472,736 | 2,258 | - | (25,880) | 9,537 | 1,021,719 | - | 3,471,820 | 969,668 | 4,441,488 |
| Negative goodwill derecognised directly to equity | - | - | - | - | - | - | 227,590 | - | 227,590 | 75,061 | 302,651 |
| At 1 January 2005 as restated | 1,991,450 | 472,736 | 2,258 | - | (25,880) | 9,537 | 1,249,309 | - | 3,699,410 | 1,044,729 | 4,744,139 |
| Exchange difference | - | - | - | - | - | (86) | - | - | (86) | - | (86) |
| Transfer to general reserve | - | - | - | - | 8,808 | - | (8,808) | - | - | - | - |
| Net income/(expense) recognised directly in equity | - | - | - | - | 8,808 | (86) | (8,808) | - | (86) | - | (86) |
| Profit for the period | - | - | - | - | - | - | 46,961 | - | 46,961 | (5,386) | 41,575 |
| Total recognised income/(expense) for the period | - | - | - | - | 8,808 | (86) | 38,153 | - | 46,875 | (5,386) | 41,489 |
| Share-based compensation | - | - | - | - | - | - | - | 6,692 | 6,692 | - | 6,692 |
| At 30 June 2005 | 1,991,450 | 472,736 | 2,258 | - | (17,072) | 9,451 | 1,287,462 | 6,692 | 3,752,977 | 1,039,343 | 4,792,320 |
| At 1 January 2006 | 199,145 | 39,194 | 2,258 | 52,622 | (6,550) | 17,179 | 1,496,553 | 3,409 | 1,803,810 | 163,054 | 1,966,864 |
| Exchange difference | - | - | - | - | - | 5,478 | - | - | 5,478 | 2,183 | 7,661 |
| Transfer to general reserves | - | - | - | - | 5,084 | - | (5,084) | - | - | - | - |
| Net income/(expense) recognised directly in equity | - | - | - | - | 5,084 | 5,478 | (5,084) | - | 5,478 | 2,183 | 7,661 |
| Profit for the period | - | - | - | - | - | - | 54,895 | - | 54,895 | 6,399 | 61,294 |
| Total recognised income/(expense) for the period | - | - | - | - | 5,084 | 5,478 | 49,811 | - | 60,373 | 8,582 | 68,955 |
| Share-based compensation | - | - | - | - | - | - | - | 515 | 515 | - | 515 |
| Released on forfeiture of share options | - | - | - | - | - | - | 19 | (19) | - | - | - |
| At 30 June 2006 | 199,145 | 39,194 | 2,258 | 52,622 | (1,466) | 22,657 | 1,546,383 | 3,905 | 1,864,698 | 171,636 | 2,036,334 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and comply with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for certain financial assets which are measured at fair values and the properties held for and under development which are measured at the lower of cost and net realisable value.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2005. As described in the annual financial statements for the year ended 31 December 2005, the following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006:

| | |
|--------------------------------|--|
| HKAS 19 (Amendment) | Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 (Amendment) | The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 39 & HKFRS 4 (Amendments) | Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts |
| HKFRS 1 & HKFRS 6 (Amendments) | First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS – Int 4 | Determining whether an Arrangement contains a Lease |
| HKFRS – Int 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC) – Int 6 | Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted. The directors of the Company anticipate that the adoption of the standards and interpretations will not result in substantial changes to the Group's accounting policies.

| | |
|--------------------|--|
| HKAS 1 (Amendment) | Capital Disclosures ¹ |
| HKFRS 7 | Financial Instruments: Disclosures ¹ |
| HK(IFRIC) – Int 7 | Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” ² |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2 ³ |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives ⁴ |

1 Effective for annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 March 2006

3 Effective for annual periods beginning on or after 1 May 2006

4 Effective for annual periods beginning on or after 1 June 2006

3. SEGMENT INFORMATION

- (a) The following analysis presents revenue, which is also the Group's turnover, and profit/(loss) for the Group's business segments for the six months ended 30 June 2006:

| | Revenue/Turnover | | Profit/(Loss) | |
|---|------------------|----------|------------------|----------|
| | Six months ended | | Six months ended | |
| | 30 June | | 30 June | |
| | 2006 | 2005 | 2006 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Business segments: | | | | |
| Information technology business | 277,899 | 237,977 | 85,162 | 62,382 |
| Provision of financial information and related services | 16,793 | 31,078 | (494) | 14,968 |
| Consumer package electronics | - | 480 | - | (196) |
| Property development | - | - | (832) | (9,955) |
| Sales of securities | - | - | (196) | (992) |
| Property investment | - | - | - | (16) |
| Distance learning and application services | 6,510 | 15,852 | (3,059) | 7,255 |
| Other segments | 608 | 525 | 621 | (318) |
| | 301,810 | 285,912 | 81,202 | 73,128 |
| Interest income | | | 518 | 987 |
| Unallocated corporate expenses | | | (7,526) | (28,033) |
| Profit from operations | | | 74,194 | 46,082 |
| Finance costs | | | (5,242) | (4,553) |
| Share of results of associates | | | 1,845 | 673 |
| Profit before income tax | | | 70,797 | 42,202 |
| Income tax expenses | | | (9,503) | (627) |
| Profit for the period | | | 61,294 | 41,575 |

3. SEGMENT INFORMATION *(continued)*

- (b) The following analysis presents the Group's revenue, which is also the Group's turnover, and segment profit/(loss) by geographical markets for the six months ended 30 June 2006:

| | Revenue/Turnover | | Segment profit/(loss) | |
|--------------------------------|------------------|----------------|-----------------------|---------------|
| | Six months ended | | Six months ended | |
| | 30 June | | 30 June | |
| | 2006 | 2005 | 2006 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Geographical segment: | | | | |
| Hong Kong | - | - | (196) | (992) |
| The People's Republic of China | 301,810 | 285,432 | 81,398 | 74,316 |
| Others | - | 480 | - | (196) |
| | 301,810 | 285,912 | 81,202 | 73,128 |

4. OTHER OPERATING INCOME

| | For the six months ended | |
|-----------------|--------------------------|--------------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Interest income | 518 | 987 |
| Sundry income | 2,223 | 470 |
| | 2,741 | 1,457 |

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

| | For the six months ended | |
|---|--------------------------|----------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Amortisation of intangible assets | 5,961 | 2,643 |
| Depreciation on property, plant and equipment | 6,222 | 6,748 |

6. FINANCE COSTS

| | For the six months ended | |
|---|---------------------------------|----------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Interest on: | | |
| Bank loans and overdrafts | | |
| – wholly repayable within five years | 1,319 | 24,535 |
| Finance charges on finance leases | | |
| – wholly repayable within five years | 10 | – |
| Other borrowings | | |
| – wholly repayable within five years | 3,913 | 4,125 |
| | 5,242 | 28,660 |
| Less: Amounts capitalised under properties held for and under development | – | (24,107) |
| | 5,242 | 4,553 |

7. INCOME TAX EXPENSES

Income tax expenses in the condensed consolidated income statement represent:

| | For the six months ended | |
|---------------------------------|---------------------------------|----------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Provision for the period: | | |
| Overseas | 9,503 | 627 |
| Taxation charges for the period | 9,503 | 627 |

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits subject to Hong Kong profits tax during the period (6 months ended 30 June 2005: Nil).

Overseas income tax has been provided on the profits of the overseas subsidiaries in accordance with tax laws of the countries in which these subsidiaries operate.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company for the period of HK\$54,895,000 (6 months ended 30 June 2005: HK\$46,961,000) and on 19,914,504,877 (6 months ended 30 June 2005: 19,914,504,877) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2006 is not presented because the exercise price of the Company's outstanding share options is higher than the average market prices of the shares during the period.

Diluted earnings per share for the six months ended 30 June 2005 is not presented because the impact of the exercise of the share options is anti-dilutive.

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSIT

The normal credit period granted ranges from 30 to 60 days. The age analysis of trade receivables as at 30 June 2006 was as follows:

| | 30 June 2006 | 31 December 2005 |
|---|-------------------------|---------------------|
| | HK\$'000 | HK\$'000 |
| Trade receivables analysed according to aging: | | |
| 0-90 days | 68,290 | 23,815 |
| 91-180 days | 2,033 | 81,035 |
| 181-270 days | 17,440 | 29,416 |
| 271-360 days | 1,482 | 2,318 |
| Over 360 days | 39,511 | 42,918 |
| Less: Provision for impairment of receivables | (9,719) | (6,810) |
| | 119,037 | 172,692 |
| Other receivables and deposits comprise: | | |
| Deposits for construction work | 663,894 | 540,763 |
| Outstanding consideration receivable arising from the disposal of other investments | - | 150,000 |
| Advances to former subsidiaries | 49,884 | 47,800 |
| Others | 288,896 | 103,223 |
| | 1,002,674 | 841,786 |
| | 1,121,711 | 1,014,478 |

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The age analysis of trade payables as at 30 June 2006 was as follows:

| | 30 June | 31 December |
|---|-----------------|-------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Trade payables analysed according to aging: | | |
| 0-90 days | 8,922 | 3,890 |
| 91-180 days | 690 | 324 |
| 181-270 days | 641 | 354 |
| 271-360 days | 450 | 39 |
| Over 360 days | 187 | 113 |
| | 10,890 | 4,720 |
| Other payables and accruals | 181,483 | 181,122 |
| | 192,373 | 185,842 |
| | <hr/> <hr/> | <hr/> <hr/> |

11. BANK AND OTHER BORROWINGS

| | 30 June | 31 December |
|---|-----------------|-------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Short-term bank loans | | |
| – Secured | 32,537 | 12,968 |
| – Unsecured | 2,622 | 9,318 |
| Other borrowings, due within one year (secured) | 25,468 | 29,460 |
| Long-term bank loans, due within one year (secured) | – | 4,625 |
| Finance leases liabilities, due within one year (secured) | 99 | – |
| | 60,726 | 56,371 |
| Finance leases liabilities | | |
| Due in the second to fifth years (secured) | 230 | – |
| | 60,956 | 56,371 |
| Less: Current portion due within one year included under current liabilities | (60,726) | (56,371) |
| Non-current portion included under non-current liabilities | 230 | – |
| | <hr/> <hr/> | <hr/> <hr/> |

12. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.10 each | Number of ordinary shares of HK\$0.01 each | HK\$'000 |
|--|--|--|----------------|
| Authorised: | | | |
| At 1 January 2005 | 30,000,000,000 | – | 3,000,000 |
| Reduction of nominal value | (30,000,000,000) | 30,000,000,000 | (2,700,000) |
| At 31 December 2005, 1 January 2006 and 30 June 2006 | – | 30,000,000,000 | 300,000 |
| Issued and fully paid: | | | |
| At 1 January 2005 | 19,914,504,877 | – | 1,991,450 |
| Reduction of nominal value | (19,914,504,877) | 19,914,504,877 | (1,792,305) |
| At 31 December 2005, 1 January 2006 and 30 June 2006 | – | 19,914,504,877 | 199,145 |

13. CONTINGENT LIABILITIES

As at 30 June 2006, the Group had the following contingent liabilities:

| | 30 June 2006 | 31 December 2005 |
|---|-------------------------|---------------------|
| | HK\$'000 | HK\$'000 |
| Guarantees given in connection with credit facilities granted to: | | |
| – A fellow subsidiary | 116,550 | 115,274 |
| – Associates (a) | 15,064 | 16,064 |
| – Third parties (a) | 97,529 | 97,697 |
| | 229,143 | 229,035 |

- (a) There have been no material developments in respect of pending litigation with Genius Reward Loan since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2005. Therefore the Company cannot ascertain the fair value of the outstanding indebtedness under the Genius Reward Loan because of pending litigation.

According to the facts disclosed in the Group's annual audited financial statements for the year ended 31 December 2005, the Company also does not have updated information of the outstanding balance of the indebtedness of the ICBC Loan. Thus, the Company cannot ascertain the fair value of the outstanding indebtedness under the ICBC Loan.

14. CAPITAL COMMITMENTS

As at 30 June 2006, the Group had the following outstanding capital commitments:

| | 30 June | 31 December |
|---|-----------------|-------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Contracted, but not provided for | | |
| – purchase of property, plant and equipment | | |
| and properties held for and under development | 177,811 | 178,391 |

15. PLEDGE OF ASSETS

As at 30 June 2006, the Group's credit facilities were supported by the following:

- (a) pledged bank deposits of HK\$21,659,000 (31 December 2005: Nil) given by a fellow subsidiary;
- (b) charge over land use right with a net carrying value of approximately HK\$12,743,000 (31 December 2005: HK\$12,736,000);
- (c) charge over shares in certain subsidiaries within the Group;
- (d) unlimited personal guarantee given by Mr. Yu Pun Hoi; and
- (e) pledge of interests in the ultimate holding company given by certain shareholders of the ultimate holding company.

16. RELATED PARTY TRANSACTIONS

There is no material and significant related party transaction for the period.

17. LITIGATIONS

There have been no material changes and developments in respect of pending litigation cases of the Group since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2005.

18. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentation in the current period where necessary.

INTERIM DIVIDEND

The directors do not recommend the declaration of the payment of an interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Company was principally engaged in corporate IT application services, provision of financial information and its related services, distance learning and application software services and property development. Turnover for the period was approximately HK\$301.8 million (6 months ended 30 June 2005: HK\$285.9 million) and profit attributable to equity holders of the Company was approximately HK\$54.9 million (6 months ended 30 June 2005: HK\$47.0 million) resulting from realignment of the Group's different business division upon completion of the restructuring last year. Net assets value of the Company amounted to approximately HK\$2,036.3 million, representing a value of HK\$0.102 per share.

Corporate IT Application Services

This business division continues to post strong performance during the period, becoming the Group's core source of income. Revenue increased by 16.8% to HK\$277.9 million (6 months ended 30 June 2005: HK\$238.0 million) and a segment profit increased by 36.5% to HK\$85.2 million (6 months ended 30 June 2005: HK\$62.4 million). The increase in both turnover and segment profit was attributable to the increasing demand for the Group's services by SMEs and the overall rapidly growing IT outsourcing market in China.

Through our Group's subsidiary, CE Dongli Technology Group Company Limited ("CE Dongli"), we offer one-stop IT application services to SMEs in China, which include domain name registrations, corporate emails, web-design and hosting, development of corporate software products and online marketing etc. Currently, there are over 65 branch offices throughout China to serve the increasing market needs.

For the two consecutive years, 2004 and 2005, IDC IT Services Tracker has ranked CE Dongli as one of the top five vendors in China IT outsourcing market. Only second to IBM and is also the only local company ranking among the multi-international contenders namely HP, CSC and EDS.

The overall IT market is expected to grow rapidly in China, and we believe CE Dongli is well positioned to capture this increasing demand and will continue to post strong performance in the years to come.

Financial Information Provision

During the period under review, this division recorded a turnover of approximately HK\$16.8 million (6 months ended 30 June 2005: HK\$31.1 million) and a segment loss of approximately HK\$0.5 million (6 months ended 30 June 2005: segment profit of HK\$15.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Financial Information Provision (continued)

Due to completion of several large system integration projects during last financial period, and the new large projects had yet been confirmed, this division recorded a decline in both categories during the period under review. In addition, the market condition of financial information provision business in China has been in severe competition, and the management will monitor closely of the overall market development and will strive for more business opportunities.

Being the major subsidiary of this business division, 北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited) (“Shihua”) is developing a comprehensive financial information platform through Internet to enhance the level of interactivity, and leverage on existing resources to extend and develop multi-media contents. Service such as on-line securities trading is also expected on this new website.

Meanwhile, the technical capacities of Shihua will also follow the trend of updated international R&D direction and adopt CORBA development technology with cross-platform, cross-language, program efficiency, high reliability and strong expansibility, so as to provide a multi-media technology platform based on LINUX. This system not only can help to facilitate implementation of a fast expansion in product series of Shihua but also it guarantees low cost, high reliability, high security and high performance of products, and this provides first class customer service. In the coming year, Shihua will continue to strategically cooperate with well-known international financial information providers and research institutions on specific fields, and will continue to develop financial information service under the backdrop that the government strives to enhance efficiency of the financial market, aiming to provide important impetus to a healthy and orderly development of the information market in China.

Distance Learning and Application Services

Turnover for the period under review was approximately HK\$6.5 million (6 months ended 30 June 2005: HK\$15.9 million) and a segment loss of approximately HK\$3.1 million (6 months ended 30 June 2005: segment profit of HK\$7.3 million) were recorded.

Resulting from the completion of several large contracts in the last financial period, new large contracts have not been secured in the period under review, performance of this business division was battered. The management will keep on sourcing and securing larger business contracts for substantiating the turnover and profit, and will implement certain business realignment to improve the current situation.

Being the major subsidiary of this business division, 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) shall continue to invest and utilize latest available technologies to establish the most advanced distance learning service platform with an aim to develop higher quality educational products and services to cope with the increasing market demand. Further expansion of its operation network is also on the agenda in a move to further strengthen its market leading position in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development

Our Guangzhou Huadu project is undergoing comprehensive planning review, and all approval procedures are progressing smoothly. Upon obtaining such approvals, the construction will commence accordingly.

The Group will continue to focus on the China property market and to further expand its IT application services, financial information services and online education business. The Group will leverage on its well established market position of its subsidiaries in different industries to continue to strengthening and expanding our leadership position with an aim to maximize investment return for our shareholder.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 30 June 2006, equity attributable to equity holders of the Company amounted to approximately HK\$1,864.7 million, including cash and bank balances of approximately HK\$29.7 million, which was denominated mainly in Renminbi and Hong Kong dollars. As at 30 June 2006, the Group's aggregate borrowings was HK\$61.0 million (as at 31 December 2005: HK\$56.4 million), including approximately HK\$35.5 million were bearing interest at fixed rates while approximately HK\$25.5 million were bearing interest at floating rates. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of equity attributable to equity holders of the Company, increased to 3.3% as of 30 June 2006 from 3.1% as at 31 December 2005. The marginal increase in gearing ratio was mainly due to the appreciation of the currency of Renminbi which results an increase in bank loan which is denominated in such currency.

The Group's contingent liabilities at 30 June 2006 were HK\$229.1 million due to the guarantees given in connection with credit facilities.

As at 30 June 2006, leasehold land with a net book value of approximately HK\$12.7 million; listed securities of certain shareholders of Nan Hai Corporation Limited, the listed holding company of the Company; shares in certain subsidiaries within the Group; unlimited personal guarantee by Mr. Yu Pun Hoi and bank deposits of HK\$21.7 million from a fellow subsidiary were pledged as securities for credit facilities.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

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

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, external training sponsorship 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 30 June 2006, the Group had approximately 6,455 employees (as at 30 June 2005: 7,166 employees). The salaries and allowance of employees for the six months ended 30 June 2006 was approximately HK\$114.0 million (6 months ended 30 June 2005: HK\$134.9 million).

PROSPECT

The Company will continue to develop products for its enterprise IT application services sector, and for increasing its market share. Application products and services based on our own I2SS solution will further strengthen our leading position in the e-commerce sector.

As the financial market in China continues to be sluggish, our development in the financial information sector has encountered many challenges. However, China's financial governing authorities have made financial reform as the top priority. We believe the market environment will make significant improvement in the coming year and with the launch of our new financial website, we are expecting a better performance from this business division.

Although the performance of distance learning division was not satisfactory during the period under review, we are confident that the situation will improve given tremendous government's investment and commitment to the distance learning sector. We believe distance learning will become one of our key business segments in the future.

The progress of approval of the Guangzhou Huadu project also runs smoothly. It is expected that the property business will bring strong cashflow to the Group in future years.

DIRECTORS' INTERESTS

As at 30 June 2006, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

The Company

(i) Interests in shares in issue

| Name of Director | Number of shares of HK\$0.01 each | | | | Approximate percentage holding |
|-----------------------|-----------------------------------|----------------------------|------------------------|----------------|--------------------------------|
| | Personal Interest | Corporate Interest | Family Interest | Total Interest | |
| Yu Pun Hoi ("Mr. Yu") | – | 12,515,795,316 (Note 1) | 44,000,000 (Note 2) | 12,559,795,316 | 63.07% |
| Fung Wing Lap | 10,000 | – | – | 10,000 | 0.00005% |

Notes:

- Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai Corporation Limited ("Nan Hai"), the holding company of the Company. These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited which are all wholly-owned subsidiaries of Nan Hai. As such, Mr. Yu was taken to be interested in these shares for the purposes of Part XV of the SFO.
- These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

(ii) Interests in underlying shares

| Name of Director | Number of underlying shares* | Nature of Interest | Approximate percentage holding |
|------------------|------------------------------|--------------------|--------------------------------|
| Lam Bing Kwan | 18,000,000 | Personal | 0.09% |
| Chen Dan | 7,500,000 | Personal | 0.04% |

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

| Grantee | Date of Grant | Exercise price per share | | Exercisable period |
|---------------|---------------|--------------------------|---------------------------------|--------------------------|
| | | option HK\$ | Number of share options granted | |
| Lam Bing Kwan | 12-11-2004 | 0.16 | 9,000,000 | 01-07-2005 to 30-06-2008 |
| | | 0.16 | 9,000,000 | 01-07-2006 to 30-06-2008 |
| Chen Dan | 12-11-2004 | 0.16 | 3,750,000 | 01-07-2005 to 30-06-2008 |
| | | 0.16 | 3,750,000 | 01-07-2006 to 30-06-2008 |

DIRECTORS' INTERESTS (continued)**Associated Corporation**

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai. As such, Mr. Yu is taken to be interested in the shares that the Company, Nan Hai or their respective controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO. Nan Hai is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 30 June 2006, the interests of the directors of the Company in shares and underlying shares of Nan Hai were as follows:

(i) Interests in shares in issue

| Name of Director | Number of shares of HK\$0.01 each | | | | Approximate percentage holding |
|------------------|-----------------------------------|----------------------------|------------------------|----------------|--------------------------------|
| | Personal Interest | Corporate Interest | Family Interest | Total Interest | |
| Yu Pun Hoi | – | 32,595,726,203 (Note 1) | 69,326,400 (Note 2) | 32,665,052,603 | 47.90% |
| Fung Wing Lap | 15,756 | – | – | 15,756 | 0.00002% |

Notes:

- Out of these 32,595,726,203 shares, 28,853,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Limited, Pippen Limited and First Best Assets Limited, companies wholly-owned by him; and 3,742,493,498 shares were held by Macro Resources Limited, a company indirectly held as to 60% by Mr. Yu.
- These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

(ii) Interests in underlying shares

| Name of Director | Number of underlying shares* | Nature of Interest | Approximate percentage holding |
|------------------|------------------------------|--------------------|--------------------------------|
| Lam Bing Kwan | 25,000,000 | Personal | 0.04% |
| Chen Dan | 25,000,000 | Personal | 0.04% |

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

| Grantee | Date of Grant | Exercise price per share option HK\$ | Number of share options granted | Exercisable period |
|---------------|---------------|---|---------------------------------|--------------------------|
| Lam Bing Kwan | 15-12-2005 | 0.04 | 12,500,000 | 01-01-2006 to 31-12-2007 |
| | | 0.04 | 12,500,000 | 01-01-2007 to 31-12-2007 |
| Chen Dan | 15-12-2005 | 0.04 | 12,500,000 | 01-01-2006 to 31-12-2007 |
| | | 0.04 | 12,500,000 | 01-01-2007 to 31-12-2007 |

Save as disclosed above, as at 30 June 2006, none of the directors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 12 November 2004, share options to subscribe for a total of 233,360,000 shares, representing approximately 1.68% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries and the persons who have provided research, development or other technological support or services to the Group at an exercise price of HK\$0.16 per share option. The closing price of share of the Company immediately before the date of grant was HK\$0.158. Movements on the share options during the period are as follows:

| Grantee | Date of Grant | Exercisable period | Exercise price per share option HK\$ | Number of share option | | | | |
|--|---------------|--------------------------|---|----------------------------------|---------------------------|-----------------------------|--------------------------|--------------------------------|
| | | | | outstanding as at 1 January 2006 | granted during the period | exercised during the period | lapsed during the period | outstanding as at 30 June 2006 |
| Directors | | | | | | | | |
| Zhang Hong Ren (resigned on 01-04-2006) | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 5,000,000 | - | - | 5,000,000 | - |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 5,000,000 | - | - | 5,000,000 | - |
| Lam Bing Kwan | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 9,000,000 | - | - | - | 9,000,000 |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 9,000,000 | - | - | - | 9,000,000 |
| Chen Dan (appointed on 14-02-2006) | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 3,750,000 | - | - | - | 3,750,000 |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 3,750,000 | - | - | - | 3,750,000 |
| Employees | | | | | | | | |
| In aggregate | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 25,980,000* | - | - | 3,960,000 | 22,020,000 |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 25,980,000 [#] | - | - | 3,960,000 | 22,020,000 |
| | | 01-01-2006 to 31-12-2008 | 0.16 | 1,500,000 | - | - | - | 1,500,000 |
| | | 01-01-2007 to 31-12-2008 | 0.16 | 1,500,000 | - | - | - | 1,500,000 |
| | | | | <u>90,460,000</u> | | | | <u>72,540,000</u> |

SHARE OPTION SCHEME (continued)

- * 3,750,000 share options which granted to Ms. Chen Dan have been shown in the category of Directors under exercisable period from 1 July 2005 to 30 June 2008 as at 1 January 2006.
- * 3,750,000 share options which granted to Ms. Chen Dan have been shown in the category of Directors under exercisable period from 1 July 2006 to 30 June 2008 as at 1 January 2006.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2006, those persons (other than directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO | Nature of interest | Number of shares in issue subject to long position | Approximate percentage of issued share capital of the Company | Notes |
|---|-------------------------------|---|--|--------------|
| Kung Ai Ming | Family and Corporate interest | 12,559,795,316 | 63.07% | 1 |
| CITIC Group | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| CITIC Capital Holdings Limited | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| CITIC International Financial Holdings Limited | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| CITIC Pacific Limited | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| Golden Gateway Enterprises Inc. | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| Forever Glory Holdings Ltd. | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| Chen Peng Jing | Corporate interest | 1,400,000,000 | 7.03% | 3 |
| | Beneficial interest | 5,000,000 | 0.03% | 3 |
| Procure Group Limited | Beneficial interest | 1,400,000,000 | 7.03% | 3 |
| Nan Hai | Corporate interest | 12,515,795,316 | 62.85% | |

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(continued)*

Notes:

1. Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.
2. CITIC Capital Holdings Limited (formerly known as CITIC Capital Markets Holdings Limited) was indirectly interested in 2,206,230,000 shares. CITIC Capital Holdings Limited is indirectly held as to 50% by CITIC Pacific Limited and as to 50% by CITIC International Financial Holdings Limited. Both CITIC International Financial Holdings Limited and CITIC Pacific Limited are companies the shares of which are listed on the Stock Exchange and in which CITIC Group controls an approximately 56% and 29% interests respectively. Both Forever Glory Holdings Ltd. and Golden Gateway Enterprises Inc. are wholly-owned subsidiaries of CITIC Pacific Limited and are companies through which CITIC Pacific Limited holds its 50% interest in CITIC Capital Holdings Limited. The interests held by CITIC Capital Holdings Limited was included as part of the interests of Forever Glory Holdings Ltd., Golden Gateway Enterprises Inc., CITIC Pacific Limited, CITIC International Financial Holdings Limited and CITIC Group.
3. Procure Group Limited is wholly-owned by Mr. Chen Peng Jing. Its interest in shares was included as part of the interest held by Mr. Chen Peng Jing.

Save as disclosed above, as at 30 June 2006, no person (other than directors and chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

CORPORATE GOVERNANCE

In the opinion of the directors of the board (the "Board"), the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, except for the deviations mentioned below:

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has not appointed a chief executive officer since the resignation of Mr. Zhang Hong Ren on 1 April 2006. The role of the chief executive officer is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

CORPORATE GOVERNANCE *(continued)*

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2006.

The Company has also established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors, namely Mr. Huang Yaowen, Prof. Jiang Ping, Mr. Chan Lap Stanley and Mr. Fung Wing Lap. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the financial control, internal control and risk management systems including the review of the unaudited interim results for the six months ended 30 June 2006.

By order of the Board
Yu Pun Hoi
Chairman

Hong Kong, 21 September 2006

CORPORATE INFORMATION

DIRECTORS

Executive

Mr. YU Pun Hoi (*Chairman*)

Ms. CHEN Dan

Mr. QIN Tian Xiang

Non-executive

Mr. LUO Ning

Mr. LAM Bing Kwan

Independent Non-executive

Mr. HUANG Yaowen

Prof. JIANG Ping

Mr. CHAN Lap Stanley

Mr. FUNG Wing Lap

COMPANY SECRETARY

Mr. WATT Ka Po James

QUALIFIED ACCOUNTANT

Ms. SHUM Mei Han

AUDITORS

Grant Thornton

Certified Public Accountants

Hong Kong

LEGAL ADVISERS

Preston Gates & Ellis

REGISTERED OFFICE

39th Floor

New World Tower I

16-18 Queen's Road Central

Hong Kong

SHARE REGISTRARS

Abacus Share Registrars Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

STOCK CODE

250

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking
Corporation Limited

WEBSITE ADDRESS

<http://www.sino-i.com>