

南海控股



# 2006

## INTERIM REPORT

# 中期報告



南海控股有限公司  
Nan Hai Corporation Limited

股份代號: 680  
Stock Code: 680

## INTERIM RESULTS

The directors of **Nan Hai Corporation 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 HK\$'000	2005 HK\$'000 (Restated)
<b>Revenue/Turnover</b>	3	<b>302,873</b>	480
Cost of sales and services provided		<b>(42,982)</b>	(461)
<b>Gross profit</b>		<b>259,891</b>	19
Other operating income	4	<b>4,604</b>	–
Administrative expenses		<b>(198,675)</b>	(9,770)
Depreciation and amortisation	5	<b>(12,260)</b>	(81)
Other operating expenses		<b>(12,285)</b>	(48)
<b>Profit/(Loss) from operations</b>	5	<b>41,275</b>	(9,880)
Finance costs	6	<b>(21,359)</b>	(4,011)
Share of results of associates		<b>1,371</b>	520
<b>Profit/(Loss) before income tax</b>		<b>21,287</b>	(13,371)
Income tax expenses	7	<b>(9,503)</b>	–
<b>Profit/(Loss) for the period</b>		<b>11,784</b>	(13,371)
<b>Attributable to:</b>			
Equity holders of the Company		<b>(15,421)</b>	(13,371)
Minority interests		<b>27,205</b>	–
<b>Profit/(Loss) for the period</b>		<b>11,784</b>	(13,371)
		<b>HK cents</b>	HK cents
<b>Loss per share for loss attributable to the equity holders of the Company during the period</b>	8		
– Basic		<b>(0.023)</b>	(0.045)
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

		<b>(Unaudited)</b>	(Audited)
		<b>30 June</b>	31 December
		<b>2006</b>	2005
	Notes	<b>HK\$'000</b>	HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>50,709</b>	43,927
Prepaid land lease payments under operating leases		<b>13,446</b>	13,440
Properties held for and under development		<b>4,143,923</b>	4,127,651
Interests in associates		<b>50,726</b>	49,379
Available-for-sale investments		<b>324</b>	324
Goodwill		<b>458,266</b>	458,266
Other intangible assets		<b>31,463</b>	36,598
<b>Total non-current assets</b>		<b>4,748,857</b>	4,729,585
<b>Current assets</b>			
Inventories		<b>3,369</b>	3,868
Properties held for and under development		<b>1,542,934</b>	1,363,145
Investments at fair value through profit or loss		<b>4,283</b>	6,491
Trade receivables, other receivables and deposits	9	<b>1,576,485</b>	1,029,947
Cash at banks and in hand		<b>510,056</b>	98,112
<b>Total current assets</b>		<b>3,637,127</b>	2,501,563
<b>Current liabilities</b>			
Trade payables, other payables and accruals	10	<b>1,983,177</b>	560,056
Amount due to a director		<b>6,205</b>	39,994
Amount due to a minority shareholder		<b>12,000</b>	12,000
Amounts due to shareholders		<b>5,006</b>	5,006
Land premium payables		<b>168,437</b>	166,593
Provision for tax		<b>33,614</b>	12,010
Bank and other borrowings	11	<b>536,909</b>	642,662
<b>Total current liabilities</b>		<b>2,745,348</b>	1,438,321
<b>Net current assets</b>		<b>891,779</b>	1,063,242
<b>Total assets less current liabilities</b>		<b>5,640,636</b>	5,792,827

## CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

As at 30 June 2006

		<b>(Unaudited)</b>	(Audited)
		<b>30 June</b>	31 December
		<b>2006</b>	2005
	Notes	<b>HK\$'000</b>	HK\$'000
<b>Non-current liabilities</b>			
Bank and other borrowings	11	<b>126,493</b>	288,184
Deposits received		–	35,389
Amounts due to shareholders		<b>361,453</b>	346,247
Deferred taxation		<b>252,790</b>	252,790
<b>Total non-current liabilities</b>		<b>740,736</b>	922,610
<b>Net assets</b>		<b>4,899,900</b>	4,870,217
<b>EQUITY</b>			
<b>Equity attributable to Company's equity holders</b>			
Share capital	12	<b>681,881</b>	681,633
Other reserves		<b>2,912,240</b>	2,894,081
Retained earnings		<b>326,920</b>	345,421
		<b>3,921,041</b>	3,921,135
<b>Minority interests</b>		<b>978,859</b>	949,082
<b>Total equity</b>		<b>4,899,900</b>	4,870,217

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

For the six months ended 30 June 2006

	For the six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash inflow from operating activities	<b>709,326</b>	35,457
Net cash outflow from investing activities	<b>(12,710)</b>	(41,713)
Net cash (outflow)/inflow from financing activities	<b>(288,434)</b>	7,249
Increase in cash and cash equivalents	<b>408,182</b>	993
Cash and cash equivalents at 1 January	<b>97,796</b>	767
Effect of foreign exchange rate changes, on cash held	<b>3,808</b>	–
Cash and cash equivalents at 30 June	<b>509,786</b>	1,760
<b>Analysis of balances of cash and cash equivalents</b>		
Cash at banks and in hand	<b>510,056</b>	2,032
Bank overdrafts	<b>(270)</b>	(272)
	<b>509,786</b>	1,760

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 30 June 2006

	Share capital	Share premium	Capital reserve	Share option reserve	Convertible notes equity reserves	Exchange reserve	Retained earnings/ (Accumulated losses)	Total equity attributable to holders of the Company	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004, as originally stated	299,318	96,069	1,921,878	-	-	7,634	94,503	2,419,402	-	2,419,402
Effect of initial adoption of HKAS 32	-	-	-	-	5,181	-	(2,170)	3,011	-	3,011
At 31 December 2004, as restated	299,318	96,069	1,921,878	-	5,181	7,634	92,333	2,422,413	-	2,422,413
Effect of initial adoption of HKFRS 3	-	-	-	-	-	-	232,458	232,458	-	232,458
At 1 January 2005, as restated	299,318	96,069	1,921,878	-	5,181	7,634	324,791	2,654,871	-	2,654,871
Loss recognised for the period	-	-	-	-	-	-	(13,371)	(13,371)	-	(13,371)
At 30 June 2005	299,318	96,069	1,921,878	-	5,181	7,634	311,420	2,641,500	-	2,641,500
At 1 January 2006	<b>681,633</b>	<b>949,510</b>	<b>1,921,878</b>	<b>3,509</b>	-	<b>19,184</b>	<b>345,421</b>	<b>3,921,135</b>	<b>949,082</b>	<b>4,870,217</b>
Exchange difference recognised directly in equity	-	-	-	-	-	12,063	-	12,063	2,572	14,635
Transfer to capital reserves	-	-	3,195	-	-	-	(3,195)	-	-	-
Net income/(expense) recognised directly in equity	-	-	3,195	-	-	12,063	(3,195)	12,063	2,572	14,635
Profit/(loss) recognised for the period	-	-	-	-	-	-	(15,421)	(15,421)	27,205	11,784
Total recognised income/(expense) for the period	-	-	3,195	-	-	12,063	(18,616)	(3,358)	29,777	26,419
Proceeds from shares issued	248	742	338	(338)	-	-	-	990	-	990
Share-based compensation	-	-	-	2,274	-	-	-	2,274	-	2,274
Released on forfeiture of share options	-	-	-	(115)	-	-	115	-	-	-
At 30 June 2006	<b>681,881</b>	<b>950,252</b>	<b>1,925,411</b>	<b>5,330</b>	-	<b>31,247</b>	<b>326,920</b>	<b>3,921,041</b>	<b>978,859</b>	<b>4,899,900</b>

## 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 and liabilities 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 <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” <sup>2</sup>
HK(IFRIC) – Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> 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 Six months ended 30 June		Profit/(Loss) Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Business segments:</b>				
Provision of financial information and related services	16,793	–	(494)	–
Information technology business	277,899	–	85,162	–
Distance learning and application services	6,510	–	(3,059)	–
Consumer packaged electronics	–	480	380	(196)
Property development	–	–	(23,994)	(9,555)
Other segments	1,671	–	429	–
	<b>302,873</b>	480	<b>58,424</b>	(9,751)
Interest income			1,858	–
Unallocated corporate expenses			(19,007)	(129)
Profit/(Loss) from operations			41,275	(9,880)
Finance costs			(21,359)	(4,011)
Share of results of associates			1,371	520
Profit/(Loss) before income tax			21,287	(13,371)
Income tax expenses			(9,503)	–
Profit/(Loss) for the period			<b>11,784</b>	(13,371)

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

	Revenue/Turnover Six months ended 30 June		Segment profit/(loss) Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Geographical segments:</b>				
Hong Kong	–	–	(46)	–
People's Republic of China	302,873	–	58,090	(9,555)
Other	–	480	380	(196)
	<b>302,873</b>	480	<b>58,424</b>	(9,751)

## 4. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Interest income	1,858	–
Sundry income	2,746	–
	<b>4,604</b>	–

## 5. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operation is arrived at after charging:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Amortisation of intangible assets	5,961	–
Depreciation on property, plant and equipment	6,299	81

## 6. FINANCE COSTS

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Interest on:		
Bank loans and overdrafts		
– wholly repayable within five years	27,412	24,107
Other borrowings and convertible notes		
– wholly repayable within five years	4,824	4,011
Amounts due to shareholders		
– wholly repayable within five years	15,206	–
Finance charges on finance leases		
– wholly repayable within five years	10	–
	<b>47,452</b>	28,118
Less: Amounts capitalised under properties held for and under development	(26,093)	(24,107)
	<b>21,359</b>	4,011

**7. INCOME TAX EXPENSES**

Income tax expenses in the condensed consolidated income statement represent:

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Provision for the period:		
Overseas	<b>9,503</b>	–
Taxation charges for the period	<b>9,503</b>	–

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. No overseas income tax has been provided for the six months ended 30 June 2005 as the Group did not derive any taxable income in overseas jurisdictions for that period.

**8. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company for the period of HK\$15,421,000 (6 months ended 30 June 2005, restated: a loss of HK\$13,371,000) and on the weighted average number of 68,178,424,054 (6 months ended 30 June 2005: 29,931,804,183) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 June 2005 and 30 June 2006 was not presented because the impact on the conversion of the convertible notes and exercise of share options was anti-dilutive respectively.

## 9. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

The Group's sales are entered into on credit terms ranging from 30 to 60 days. The age analysis of trade receivables as at 30 June 2006 was as follows:

	<b>30 June 2006</b>	31 December 2005
	<b>HK\$'000</b>	HK\$'000
Trade receivables, analysed according to aging:		
0-90 days	<b>68,290</b>	23,814
91-180 days	<b>2,033</b>	81,514
181-270 days	<b>17,440</b>	29,416
271-360 days	<b>1,482</b>	2,319
Over 360 days	<b>50,500</b>	58,625
Less: Provision for impairment of receivables	<b>(20,000)</b>	(18,007)
	<b>119,745</b>	177,681
Other receivables and deposits comprise:		
Deposits for construction works	<b>663,894</b>	540,763
Advances to former subsidiaries	<b>49,884</b>	47,800
Outstanding consideration receivable arising from disposal of other investments	-	150,000
Others	<b>742,962</b>	113,703
	<b>1,456,740</b>	852,266
	<b>1,576,485</b>	1,029,947

## 10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	<b>30 June 2006</b>	31 December 2005
	<b>HK\$'000</b>	HK\$'000
Trade payables, analysed according to aging:		
0-90 days	<b>8,922</b>	3,890
91-180 days	<b>690</b>	324
181-270 days	<b>641</b>	354
271-360 days	<b>451</b>	38
Over 360 days	<b>2,810</b>	2,728
	<b>13,514</b>	7,334
Other payables and accruals	<b>1,969,663</b>	552,722
	<b>1,983,177</b>	560,056

## 11. BANK AND OTHER BORROWINGS

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Bank overdrafts (unsecured)	<b>270</b>	316
Short-term bank loans		
– Secured	<b>508,450</b>	612,886
– Unsecured	<b>2,622</b>	–
Other borrowings, due within one year (secured)	<b>25,468</b>	29,460
Finance leases liabilities, due within one year (secured)	<b>99</b>	–
	<b>536,909</b>	642,662
Long-term bank loans (secured)		
Due more than one year but not exceeding two years	<b>126,263</b>	288,184
Finance leases liabilities		
Due in the second to fifth years (secured)	<b>230</b>	–
	<b>663,402</b>	930,846
Less: Current portion due within one year included under current liabilities	<b>(536,909)</b>	(642,662)
Non-current portion included under non-current liabilities	<b>126,493</b>	288,184

## 12. SHARE CAPITAL

	<b>Number of ordinary shares of HK\$0.01 each</b>	<b>HK\$'000</b>
Authorised:		
At 1 January 2006 and <b>30 June 2006</b>	<b>500,000,000,000</b>	<b>5,000,000</b>
Issued and fully paid:		
At 1 January 2005	29,931,804,183	299,318
Conversion of convertible notes	11,111,111,111	111,111
Issue of shares	27,120,395,500	271,204
At 31 December 2005 and 1 January 2006	68,163,310,794	681,633
Issue of shares	24,750,000	248
<b>At 30 June 2006</b>	<b>68,188,060,794</b>	<b>681,881</b>

## 13. CAPITAL COMMITMENTS

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

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Contracted, but not provided for		
– purchase of property, plant and equipment and properties held for and under development	<b>788,699</b>	569,244

## 14. CONTINGENT LIABILITIES

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

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Guarantees given in connection with credit facilities granted to:		
– Associates (a)	<b>15,064</b>	16,064
– Third parties (a)	<b>97,529</b>	132,074
	<b>112,593</b>	148,138

- (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.

**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);
- (b) charge over prepaid lease payment for leasehold land with a net carrying value of HK\$13,446,000 (31 December 2005: HK\$13,440,000);
- (c) charge over certain properties held for and under development for sale with carrying value of HK\$732,191,000 (31 December 2005: HK\$3,994,247,000);
- (d) charge over shares in certain subsidiaries within the Group;
- (e) unlimited personal guarantee given by Mr. Yu Pun Hoi;
- (f) guarantee given by a third party of RMB470,000,000 (31 December 2005: RMB610,000,000);
- (g) pledge of 1,667,783,316 (31 December 2005: 1,726,993,316) shares of Sino-i as securities to certain securities brokers, the total of which represents about 13.33% (31 December 2005: 13.8%) of total interest in Sino-i. The market value of such listed shares at 30 June 2006 was approximately HK\$176,785,000 (31 December 2005: HK\$205,512,000); and
- (h) pledge of interests in the Company given by certain shareholders of the 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. The comparative figures have been restated for the effect of initial adoption of HKAS 32 due to the update of the prevailing market interest rate for similar non-convertible debts available in the preparation of the Group's financial statements.

## 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

The Group was principally engaged in property development and, through its listed subsidiary, Sino-i Technology Limited ("Sino-i"), 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 under review was approximately HK\$302.9 million (6 months ended 30 June 2005: HK\$0.5 million) and loss attributable to equity holders of the Company of approximately HK\$15.4 million (6 months ended 30 June 2005, restated: a loss of HK\$13.4 million) were recorded. Net assets value of the Group amounted to approximately HK\$4,899.9 million, representing a value of HK\$0.072 per share.

No comparative figures are given for all business divisions, save for the property development division, as the Company was only engaged in property development business prior to the completion of the restructuring which was completed on 31 August 2005.

#### *Property Development*

During the period under review, no turnover or profit were recorded (6 months ended 30 June 2005: Nil).

The Group's property development project in Shekou, Shenzhen, namely "The Peninsula" Phase 1 was on pre-sale in February 2006. Phase 1 comprises 145,000 sq.m. of residential complex which was sold out within 5 days at an average price of RMB11,500 per sq.m. Turnover and profit with respect to the sale of the Phase 1 will be reflected in the second half of the financial year.

The Peninsula project comprises of 5 phases. Phase 2 will provide over 220,000 sq.m. of residential units, and is expected to be launched to the market in 2007. Given the booming property market in China, we anticipate that the sale of phases of The Peninsula will command higher return for the Group in the next 5 years.

In addition, 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.

#### *Corporate IT Application Services*

This business division continues to post strong performance during the period, becoming the Group's core source of income. Revenue was HK\$277.9 million (6 months ended 30 June 2005: N.A.) and a segment profit of HK\$85.1 million (6 months ended 30 June 2005: N.A.).



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS REVIEW *(continued)*

#### *Corporate IT Application Services (continued)*

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: N.A.) and a segment loss of approximately HK\$0.5 million (6 months ended 30 June 2005: N.A.).

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.

In addition, Shihua will also 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: N.A.) and a segment loss of approximately HK\$3.1 million (6 months ended 30 June 2005: N.A.) were recorded.

**MANAGEMENT DISCUSSION AND ANALYSIS** (continued)**BUSINESS REVIEW** (continued)*Distance Learning and Application Services (continued)*

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 position in the industry.

**LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL**

The Group continues to adopt prudent funding and treasury policies. As at 30 June 2006, the net assets value of the Group amounted to approximately HK\$4,899.9 million, including cash and bank balances of approximately HK\$510.1 million which was denominated mainly in Renminbi and Hong Kong dollars. As at 30 June 2006, the Group's bank and other borrowings amounted to HK\$663.4 million and HK\$1,024.9 million inclusive of shareholders' loan (as at 31 December 2005: HK\$930.8 million and HK\$1,277.1 million inclusive of shareholders' loan). For the Group's bank and other borrowings, approximately HK\$637.9 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 bank and other borrowings (excluding shareholders' loan) as a percentage of equity attributable to equity holders of the Company decreased to 16.9% (26.1% including shareholders' loan) as of 30 June 2006 from 23.7% (32.6% including shareholders' loan) as at 31 December 2005.

The Group's contingent liabilities at 30 June 2006 were HK\$112.6 million due to the guarantees given in connection with credit facilities.

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

- (a) properties held for and under development with land lot no. K708-0054 at Liu Wan, Shekou, and shares in certain subsidiaries within the Group;
- (b) pledge of bank deposits of HK\$21,659,000;
- (c) charge over prepaid lease payment for leasehold land with a net carrying value of HK\$13,446,000;
- (d) unlimited personal guarantee given by Mr. Yu Pun Hoi;

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL *(continued)*

- (e) guarantee given by a third party of RMB470 million;
- (f) certain shareholders of the Company pledge their interests in the Company; and
- (g) pledge of Sino-i shares to certain securities brokers, the total of which represents about 13.33% (as at 31 December 2005: 13.8%) of total interest in Sino-i.

### 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 capital requirements 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 6,620 employees (as at 30 June 2005: 36 employees). The salaries and allowance of employees for the six months ended 30 June 2006 was approximately HK\$129.6 million (6 months ended 30 June 2005: HK\$4.65 million).

### PROSPECT

The property business of the Group has proven successful resulting from the remarkable sales of Phase 1 of The Peninsula project. In addition, progress of approval of the Guangzhou Huadu project also runs smoothly. It is expected that the property business will continue to bring strong cashflow to the Group in future years.

Given a healthy and stable market condition in the China property market, we are optimistic that both projects will generate substantial profit for the Group in the next 5 years. Meanwhile, the management is focusing on expanding its land reserve to ensure a stable and strong profit stream for the Group alongside with its property development business in China.

Through its listed subsidiary, Sino-i, the Company will continue to focus on the China IT market.

**MANAGEMENT DISCUSSION AND ANALYSIS** (continued)**PROSPECT** (continued)

Being the flagship of the IT division of the Group, CE Dongli will continue to develop products for its enterprise IT application services sector, and strive to increase 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 hence 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.

**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 (the "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")	–	32,595,726,203 (Note 1)	69,326,400 (Note 2)	32,665,052,603	47.90%

Notes:

1. 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.
2. 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.

**DIRECTORS' INTERESTS** (continued)**(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

**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 the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i Technology Limited ("Sino-i"), a subsidiary of the Company. Sino-i 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 Sino-i 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	–	12,515,795,316 (Note 1)	44,000,000 (Note 2)	12,559,795,316	63.07%

**DIRECTORS' INTERESTS** (continued)**Associated Corporation** (continued)**(i) Interests in shares in issue** (continued)

Notes:

- These 12,515,795,316 shares were collectively held by Goalrise Investments Limited View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.
- 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 option HK\$	Number of share options granted	Exercisable period
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

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 15 December 2005, share options to subscribe for a total of 468,625,000 shares, representing approximately 1.57% 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 at an exercise price of HK\$0.04 per share option. The closing price of share of the Company immediately before the date of grant was HK\$0.039. 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
<b>Directors</b>								
Zhang Hong Ren (resigned on 01-04-2006)	15-12-2005	01-01-2006 to 31-12-2007	0.04	8,750,000	-	8,750,000 (Note 1)	-	-
		01-01-2007 to 31-12-2007	0.04	8,750,000	-	-	8,750,000	-
Lam Bing Kwan	15-12-2005	01-01-2006 to 31-12-2007	0.04	12,500,000	-	-	-	12,500,000
		01-01-2007 to 31-12-2007	0.04	12,500,000	-	-	-	12,500,000
Chen Dan (appointed on 14-02-2006)	15-12-2005	01-01-2006 to 31-12-2007	0.04	12,500,000	-	-	-	12,500,000
		01-01-2007 to 31-12-2007	0.04	12,500,000	-	-	-	12,500,000
<b>Employees</b>								
In aggregate	15-12-2005	01-01-2006 to 31-12-2007	0.04	200,900,000 (Note 2)	-	16,000,000 (Note 3)	8,000,000	176,900,000
		01-01-2007 to 31-12-2007	0.04	200,225,000 (Note 4)	-	-	8,000,000	192,225,000
				<u>468,625,000</u>				<u>419,125,000</u>

Notes:

1. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK\$0.066.
2. 12,500,000 share options which granted to Ms. Chen Dan have been shown in the category of Directors under exercisable period from 1 January 2006 to 31 December 2007 as at 1 January 2006.
3. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$0.063.
4. 12,500,000 share options which granted to Ms. Chen Dan have been shown in the category of Directors under exercisable period from 1 January 2007 to 31 December 2007 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:

<b>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</b>	<b>Nature of interest</b>	<b>Number of shares in issue subject to long position</b>	<b>Approximate percentage of issued share capital of the Company</b>	<b>Notes</b>
Kung Ai Ming	Family and Corporate interest	32,665,052,603	47.90%	1
Rosewood Assets Limited	Beneficial interest	6,518,000,210	9.56%	4
Actinna Development Limited	Corporate interest	14,830,245,497	21.75%	4
Righteous International Limited	Corporate interest	3,742,493,498	5.49%	4
Macro Resources Limited	Beneficial interest	3,742,493,498	5.49%	3 & 4
First Best Assets Limited	Beneficial interest	7,504,986,998	11.01%	4
CITIC Group	Corporate interest	9,448,141,472	13.86%	2 & 3
	Security interest	21,619,587,933	31.71%	
CITIC Capital Holdings Limited	Corporate interest	812,450,000	1.19%	2
	Security interest	21,619,587,933	31.71%	
CITIC International Financial Holdings Limited	Corporate interest	812,450,000	1.19%	2
	Security interest	21,619,587,933	31.71%	
CITIC Pacific Limited	Corporate interest	812,450,000	1.19%	2
	Security interest	21,619,587,933	31.71%	
Golden Gateway Enterprises Inc.	Corporate interest	812,450,000	1.19%	2
	Security interest	21,619,587,933	31.71%	
Forever Glory Holdings Ltd.	Corporate interest	812,450,000	1.19%	2
	Security interest	21,619,587,933	31.71%	
Lim Siew Choon	Corporate interest	10,789,673,777	15.83%	5
Empire Gate Industrial Limited	Beneficial interest	7,484,986,997	10.98%	5
Lee Tat Man	Beneficial interest	250,000,000	0.37%	
	Security interest	7,700,000,000	11.30%	



## **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 22,432,037,933 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. CITIC Group was indirectly interested in 31,067,729,405 shares, of which interests in 22,432,037,933 shares were held through its interest in CITIC Capital Holdings Limited and interests in the remaining 8,635,691,472 shares were held by its wholly-owned subsidiaries, Staverley Assets Ltd., and its 40% owned company, Marco Resources Limited.
4. Rosewood Assets Limited, Actinna Development Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Limited is held as to 60% by Righteous International Limited. Their interests in shares are disclosed as the corporate interests of Mr. Yu above. Interest held by Macro Resources Limited was included as the interest of Righteous International Limited. The interest of Actinna Development Limited is held through Pippen Limited, its wholly-owned subsidiary.
5. Empire Gate Industrial Limited is wholly-owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

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. 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.

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 Bye-Laws. 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 and Mr. Lau Yip Leung. 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*)  
Mr. QIN Tian Xiang  
Ms. CHEN Dan

#### Non-executive

Mr. YU Lin Hoi  
Mr. LAM Bing Kwan

#### Independent Non-executive

Mr. HUANG Yaowen  
Prof. JIANG Ping  
Mr. LAU Yip Leung

### COMPANY SECRETARY

Mr. WATT Ka Po James

### QUALIFIED ACCOUNTANT

Mr. MAG Chiu Fai

### AUDITORS

Grant Thornton  
Certified Public Accountants  
Hong Kong

### LEGAL ADVISERS

Preston Gates & Ellis

### BERMUDA LEGAL ADVISERS

Appleby Hunter Bailhache

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

39th Floor  
New World Tower I  
16-18 Queen's Road Central  
Hong Kong

### REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

### PRINCIPAL REGISTRARS

Butterfield Fund Services (Bermuda) Limited  
11 Rosebank Centre  
Bermudiana Road  
Hamilton  
Bermuda

### HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Abacus Share Registrars Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### STOCK CODE

680

### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited

### WEBSITE ADDRESS

<http://www.nanhaicorp.com>