



# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATION REVIEW

The Group was principally engaged in corporate IT application services, financial information services and distance learning services. Turnover for the year was HK\$619.3 million (2005: HK\$496.2 million), and a net loss of HK\$183.5 million (2005: a net profit of HK\$270.2 million) was recorded. The net asset value of the Group amounted to approximately HK\$1,823.3 million (2005: HK\$1,966.9 million), representing a value of HK\$0.092 per share.



During the year, the Company will continue to develop all of its businesses in full force, enhance corporation norms, and build up more synergies in terms of sharing of resources, capabilities and cost efficiency. In addition to strengthen the Company's leading position in the IT application service sector in China, it will progressively establish its development foundation in the sector of culture and media business.

The net loss recorded in 2006 was mainly due to the one-off write off of accumulated goodwill amounted to approximately HK\$290 million which was generated from the business of provision of financial information services. The main reason for writing off the goodwill was due to the change of business strategic plans. Without taking into account of the write off of goodwill, the Group should have a net profit of HK\$106.3 million in 2006. In consideration of the improving business performance and foreseeable financial strength, the Company believes that the write off of goodwill will be beneficial for its growth in long-term.

### Corporate IT Application Services

Both the tremendous volume of clients available in the segment of SME and continuing increment of IT investment have become the focusing areas in the IT market. Resulting from the long-term cooperation with SMEs, and continuing introduction of innovative products and provision of comprehensive services by the Company, the performance of the Company remained extraordinary in the highly competitive market. During the year, this division was recorded a turnover of HK\$585.2 million (2005: HK\$422.0 million) and a net profit of HK\$126.8 million (2005: HK\$113.1 million).



The Company will continue to improve its business strategies, marketing and sales, technological R&D and service operation etc.; to increase innovation; to reallocate internal resources for synergies; and to enhance operating efficiency.



#### CE Dongli

CE Dongli has been following the concept of "Customer Oriented", providing clients with high quality of products and services through its nationwide business network. With its outstanding performance, CE Dongli has been awarded as follows which have drawn the attention of its competitors:

- No.1 Brand for China Enterprises IT Application Services;
- Top 10 Growing Enterprises by Fortune China;



# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATION REVIEW (continued)

### Corporate IT Application Services (continued)

#### *CE Dongli (Continued)*

- Integrity Enterprise in Information Industry of China for two consecutive years;
- China Best Growing Enterprises in IT;
- China Best Service Provider in e-Commerce;
- China IT Innovation Enterprise in China for two consecutive years;
- China IT Annual Innovation Enterprise Reward;
- Informationalize Influence China IT 2006 Annual Contribution Award;
- Users Most Satisfied IT Application Service Provider;
- Excellent IT Outsourcing Service Provider in China;
- Best Brand of Internet Application Service Provider in 2005.

#### *Xinnet*

As an operator of basic Internet application service for corporate information, Xinnet has strengthened its distributor channels. At present, Xinnet has established 27 branches over the country, and has more than 10,000 distributors.

In view of Xinnet's main businesses, it is ranked the first in both ownership and registration of domain names in China. In addition, Xinnet was awarded as a golden registration service provider of "cn" domain names and golden registration service provider of Chinese domain name by CNNIC in 2006. "Free post" of Xinnet was accredited a special prize by China Internet Conference.

### Financial Information Services

During the year, this division was recorded a turnover of HK\$39.6 million (2005: HK\$39.5 million) and a net loss of HK\$283.1 million (2005: a net profit of HK\$3.7 million).

Shihua continued to focus on financial information service business. By means of streamlining information exchange, professional contents and analysis, and real-time information delivery, Shihua could provide accurate and detailed financial information for the information market in China.

In 2007, the information services relating to securities and fund investments have much better prospect for growth.



The investment made by the Company in the past years began to show its return by having rapid development in provision of FOREX information in banking sector, and having major market share in this sector. Basing on its experience in foreign exchange and futures information market, Shihua will launch such comprehensive solutions as interim and advanced terminal securities products, e-banking products and wireless services etc. Having the advantage of more detailed professional information and analysis contents, and advanced technologies and service platforms, Shihua is confident of becoming a leader in developing the financial information market in China.



# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATION REVIEW (continued)

### Distance Learning Services

During the year, this division was recorded a turnover of HK\$17.6 million (2005: HK\$32.5 million) and a net profit of HK\$5.1 million (2005: HK\$12.6 million).

In 2006, Chinese Dadi had developed more than 300 education software for clients. It also established comprehensive and in-depth collaborations with more than 20 provincial and municipal examination authoritative organizations, and established its branch offices in 8 major cities in China. Chinese Dadi has more than 800,000 registered on-line education users. The average daily page view of its website reached 3.46 million times, and reached 4.75 million times at peak hours.



### Research & Development

In order to cope with the rapid development in various business sectors, the Company set up two IT professional teams respectively for software R&D and technology operations which aggressively enhanced and strengthened the Company's capabilities in the areas of software development, IT services and IT infrastructural support. As at the end of 2006, the Company's software R&D centre had over 800 software engineers, and technology operations centre had over 200 system engineers. Currently, the software R&D team has progressively developed CBD (component based design) method for software development, and has implemented stringent software developing process and quality control system. The Company is in a leading position in such technological aspects as DRM (digital right management), SOA (service-oriented application), Openoffice & Mozilla base on open source code, and IT application service system etc. The technical operations team has fully implemented IT service management in international standards by referring to Information Technology Infrastructure Library (ITIL), such move has led to enhancing our IT services capabilities. Furthermore, the Company has also established Internet Data Centre (IDC) in Beijing and Guangzhou while the Shanghai IDC is also in the pipeline. These IDCs provide high quality, adaptable, reliable and stable IT infrastructure for the Company's various businesses.



Currently, the technology operations team is well equipped with the abilities of software development and IT services in such areas as e-commerce, corporate IT application, e-communication, financial management, multimedia and content web sites. With the above abilities, it is able to provide comprehensive IT services ranging from software development to integrated systems, business solutions, IT services support and management, and operations support etc. for the Company.





# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2006, the net asset value of the Group attributable to the equity holders amounted to approximately HK\$1,632.3 million (2005: HK\$1,803.8 million), including cash and bank balances of approximately HK\$43.1 million (2005: HK\$65.5 million) which were denominated mainly in Renminbi and Hong Kong dollars. As at 31 December 2006, the Group's aggregate borrowings was HK\$60.7 million (2005: HK\$56.4 million), including approximately HK\$35.3 million were bearing interest at fixed rates while approximately HK\$25.4 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 3.7% as at 31 December 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 in turn inflated the value of bank loans in Hong Kong dollars; and the decrease in retained earnings attributable to the equity holders of the Company resulting from the write-off of accumulated goodwill generated from the business of provision of financial information services.



The Group's contingent liabilities at 31 December 2006 were HK\$154 million due to the guarantees given in connection with credit facilities.

As at 31 December 2006, leasehold land with a net book value of approximately HK\$13.0 million; listed securities of certain shareholders of Nan Hai Corporation Limited; and bank deposits of HK\$22.3 million from a fellow subsidiary were pledged as securities for credit facilities.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

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





# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. At 31 December 2006, the Group had approximately 7,205 employees (2005: 6,562 employees). The salaries of and allowances for employees for the year ended 31 December 2006 were about HK\$278.5 million (2005: HK\$212.7 million).

## PROSPECT

The Company will continue to streamline its businesses, to enhance overall synergies and efficacies, and to strengthen leading market position in its respective business areas. In addition, the Company will continue to invest and expand its current businesses for enjoying competitive advantage in those markets. The Company will increase its market share by means of continuing mergers and acquisitions, and restructuring and re-allocation of internal resources.



The strong technical and product supports have been the key factors to the success of the Company. Therefore, the Company will continue to enhance the quality and professionalism of its technical teams, and R&D capabilities for speeding up the development of products and widening the product lines.

Convenient and efficient access of various information by the general public is one of the missions of the Company. The Company will continue to speed up in the development of culture and media business. Digital cinema circuit business has been in operation, which will be the foundation of development of digital cinema chains all over the nation.

The Company will continue to focus on all current businesses, and to reinforce and expand its competitive advantage for achieving greater returns for the shareholders.