

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

The Group's overall turnover for the period ended 30th September, 2003 decreased by 37% to approximately HK\$19,838,000 over last year, of which approximately HK\$18,596,000 and HK\$1,242,000 (2002: HK\$29,632,000 and HK\$1,885,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the period ended 30th September, 2003, the Group's consolidated net loss attributable to shareholders decreased by 57% to approximately HK\$24,450,000 as compared to that of the last year. The loss per share for the period was HK0.81 cents (2002: HK1.92 cents). The loss for the period was analysed as follows:

- (i) the management has imposed control on the operating costs, the administrative expenses for the period was decreased by approximately HK\$11,892,000 or 28% over the previous year, which was mainly attributable to the decrease in staff costs by approximately 27%;
- (ii) amortisation of deferred development costs amounted to HK\$9,105,000 and expenditures of approximately HK\$402,000 incurred as expenses during the period for the research and development of the information technology projects;
- (iii) deemed disposal of 8.17% equity interest in Chinese 2000 Group to Chinese 2 Linux (Holdings) Limited on 22nd September, 2003 recorded a loss of approximately HK\$1,333,000; and
- (iv) an unrealised gain on investments in securities of approximately HK\$16,410,000.

The Directors believe that the loss for the consecutive periods will be improved once when all the revenue from the Group's technology projects is generated in the coming years.

At 30th September, 2003, the Group's net asset value was HK\$369,457,000 and net asset value per weighted average number of 3,027,233,959 shares of the Company was approximately HK\$0.12 (2002: HK\$0.15).

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

### **Placement of Warrants**

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in connection with the private placing of 430,000,000 warrants conferring rights to subscribe up to HK\$70,950,000 in aggregate in cash for shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.165 per share during the two years period from 8th July, 2003 to 7th July, 2005, both days inclusive. The placing of warrants was completed on 4th July, 2003. The net proceeds of the placing of approximately HK\$24 million will be used for the general working capital of the Group.

### **Liquidity and Financial Resources**

As at 30th September, 2003, the Group had bank and cash balances in aggregate of approximately HK\$39,750,000 and short-term listed securities of approximately HK\$59,012,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30th September, 2003, the Group's total liabilities amounted to approximately HK\$29,425,000, representing approximately 8% (2002: 7%) to the shareholders' equity. There was no outstanding bank loan as at 30th September, 2003.

The Directors believe that the Group currently has sufficient liquidity to finance its daily operation, and the net proceeds of the placing of warrants in July 2003 would further strengthen the financial position of the Group.

### **Development Costs of I.T. Projects**

As at 30th September, 2003, accumulated costs incurred for the development of Chinese language computer operating system, Chinese single chip system, Chinese electronic books and other related application software less accumulated amortisation amounted approximately to HK\$52,545,000 (2002: HK\$80,706,000). These development costs are deferred and written off over its estimated useful life range from two to five years from the date of commencement of commercial operations. For the period ended 30th September, 2003, the amortisation of development cost amounted to HK\$9,105,000 (2002: HK\$8,910,000). In addition, research and development expenditures incurred directly as expenses during the period amounted to HK\$402,000 (2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

### **Employment and Remuneration Policies**

As at 30th September, 2003, the Group had a total of 133 employees of which 84 are based in Hong Kong, 44 in Macau and 5 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$13,216,000 (2002: HK\$18,324,000). Remuneration packages are maintained at competitive level and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.

### **INTERIM DIVIDEND**

The Board of Directors of the Company has resolved not to declare an interim dividend for the six months ended 30th September, 2003 (2002: Nil).

### **REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the listed securities in the Company during the six months ended 30th September, 2003.

### **SHARE OPTION SCHEME**

The Company has terminated its share option scheme adopted on 15th June, 1993 (the "1993 Scheme") and adopted a new share option scheme (the "2002 Scheme") on its 2002 Annual General Meeting held on 21st August, 2002. Details of the 2002 Scheme were set out in the circulars to shareholders dated 26th July, 2002. No share option has been granted under the 2002 Scheme since its adoption.

Subsequent to the termination of the 1993 Scheme, no further options can be granted thereunder but in all other respects, the provisions of the 1993 Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.