



MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 September 2003, the Group's turnover was approximately HK\$15.8 million, a slight decrease of 3% as compared with HK\$16.3 million for the last corresponding period. Operating loss for the period amounted to HK\$15.7 million (2002: profit of HK\$5 million) and loss per share was 0.31 cents (2002: earnings per share at 0.03 cents).

Operating loss for the period was mainly attributable to the loss from the provision of technology related services of HK\$15 million (2002: HK\$1.2 million). The increase in loss from such business segment was mainly attributable to three reasons: firstly, the business was affected by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") together with keen competition of the IT solutions business in the People's Republic of China (the "PRC"); secondly, restructuring costs were incurred to trim off low margin projects; thirdly, a provision of HK\$3.7 million on long term receivable was made for the period, accounting for 24% of total operating loss.

Benefiting from the recovery of property rental market, turnover from property investment recorded a slight increase of 6% to HK\$9.4 million as compared with HK\$8.9 million for the last corresponding period. Results contributed by property investment improved by 36% from HK\$5.3 million of the last corresponding period to HK\$7.2 million.

Loss attributable to shareholders was HK\$17.9 million (2002: profit of HK\$1.6 million).



Business review

NWCB made good progress in the first half of the financial year ending 31 March 2004 following the success and complete landing of IT business operations into the PRC. NWCB embarked on its growth strategies from software solutions to outsourcing services as well as setting sail on mobile internet services market.

During the review period, NWCB enhanced the service offerings to enterprise segment with the professional outsourcing services of both the IT outsourcing and call center services outsourcing. However, during the period, the business was greatly impacted by the SARS outbreak as the PRC was the most affected country. The Group's business was inevitably affected since most of the commercial activities came to a complete halt during this period and the Group's outsourcing business was not any different. However, as SARS was over, the outsourcing business resumed and moved back on track during the second quarter of the financial year.

During the period, the Outsourcing Development Center built close working relationship with customers such as Kingdee and IBM, among which Kingdee was secured as a long-term outsourcing partner.

After becoming the exclusive agent for China TDT Call Center in the PRC, the call center services achieved satisfactory results. Major wins included contracts from direct marketing, telemarketing and advertising companies.

In line with its long term strategy, NWCB has progressively expanded from business market to consumer market with a focus on delivering services of information contents and mobile internet technology. China is a promising market for mobile internet services in information, entertainment and games. NWCB, under the brand name of "ChinaQuest", has secured a leading market position as a Location Based Services ("LBS") provider. During the period, the Group has spent much effort in setting up the infrastructure of both the mapping and city information content and mobile entertainment services. A core team was spun off to focus on the research and development of new services and operations of the consumer business.



In the business expansion of the mobile entertainment and information services on LBS technology, NWCB achieved very positive results. In May 2003, NWCB signed an agreement with Unicom Guomai jointly providing call center directory enquiry services of mapping and city information in Shanghai for customers of Shanghai Unicom. The service was successfully launched in July 2003. In addition, a services agreement was also signed with Guangdong Iscreate Communication Co., Ltd., enabling NWCB to launch its first LBS mobile games services to China Unicom's subscribers in Guangzhou in September 2003.

In June 2003, NWCB signed a partnership contract with Unwiredfactory, a Denmark-based company, to roll out location-based games services to mobile communications services operators in the PRC. The team has completed all product localization work during the period and the service is scheduled to be launched by the end of the year 2003.

In July 2003, NWCB signed a memorandum of understanding with Siemens Shanghai Mobile Communications Limited as strategic partner to develop the mobile information service market in the PRC focusing on LBS technology.

During the period, the Group also entered into a joint venture agreement with a local partner to set up a joint venture in the PRC named Beijing New World Intelligent Communication Technologies Company Limited ("NWICT"), of which the Group owns 65% beneficial interest. NWICT is engaged in developing mobile information services applications for the Ministry of Public Security.



Future outlook

Consumer services – NWCB will continue to focus on the mobile internet services, growing from the strength of mapping content, Geographical Information Services and LBS technology, to mobile gaming and entertainment services.

NWCB has scheduled to roll out various mobile internet based mapping services starting from the last quarter of the financial year, initially starting with its first fee-based internet mapping service. In addition, working along with China Unicom and China Mobile, various mapping services will be offered to their customers. Consumers will soon be able to enjoy mapping and city information services using various access methods, whether at home, at work or on the move.

Leveraging on the strength of LBS technology, the Group will expand further into offering other mobile entertainment services. Initially mobile games will be one of the key service offerings. The team will continue to focus on rolling out LBS mobile games in key cities across the nation. The Group will further exploit the mobile internet market by offering very comprehensive mobile entertainment services. These services will be offered over the most advanced mobile technology from SMS, to WAP, MMS and K-Java, BREW and 3G.

Business services – NWCB will continue to focus on expanding its service offerings in outsourcing services. The software outsourcing team will focus on working with international partners to provide a cost effective solution for their outsourcing needs. The call center services team will continue to provide the best in class services to its long term customers and gain continuation of contracts. In the meantime, the Group will expand to provide higher margin services such as training, professional services and inbound customer care service outsourcing. With more than three years of call center experience and a professionally managed and well trained team of staff, the Group is well positioned to secure high quality customers.



Financial resources

1. *Liquidity and financial resources*

As at 30 September 2003, the Group's shareholders' fund amounted to HK\$236 million (31 March 2003: HK\$254 million). Net asset value per share remains steady at HK\$0.04.

The Group's funding was mainly derived from internal resources and revolving banking facilities. As at 30 September 2003, the cash and bank balances were HK\$13.1 million (31 March 2003: HK\$12.3 million).

Total net borrowings of the Group as at 30 September 2003 amounted to HK\$159 million (31 March 2003: HK\$141 million), of which HK\$47.1 million was payable within one year, HK\$13.5 million was payable in the second year, HK\$43.7 million was payable from third to fifth year and HK\$54.7 million was payable beyond the fifth year.

2. *Gearing*

As at 30 September 2003, the gearing ratio of the Group was 0.42 (31 March 2003: 0.37) which was calculated based on the Group's total loans outstanding less cash balances to total tangible assets.

3. *Interest risk exposure and foreign currency exposure*

Interests on bank loans and borrowings of the Group are chargeable mainly based on certain agreed interest margins over the Hong Kong Interbank Offer Rate. As the Group's operations are principally in Hong Kong and the mainland China and all assets and liabilities are denominated either in Renminbi, Hong Kong dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.



4. *Commitments*

These comprised of contracted commitments relating to acquisition of beneficial interest in a related company and uncalled portion of other investments.

5. *Charges on assets*

Investment properties with aggregate net book value of HK\$310 million (31 March 2003: HK\$310 million) and certain cash balances of HK\$6.5 million (31 March 2003: HK\$6.1 million) were pledged to a bank as collaterals for general banking facilities.

6. *Contingent liabilities*

The Group did not have any material contingent liabilities as at 30 September 2003 (31 March 2003: Nil).

Employees

As at 30 September 2003, the Group employed over 130 full-time employees mainly in Hong Kong and the mainland China. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective countries and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement funds, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Structured training programs are also offered for staff training and development.