Operation Review

The Group's financial year-end has been changed from 31 March to 31 December, therefore, the period under review becomes nine months from 1 April 2003 to 31 December 2003 accordingly. During the nine-month period, the Group was principally engaged in information technology business, provision of financial information and related services, hotel operation, distance learning and application services, property investment and development and through its listed subsidiary, South Sea Holding Company Limited ("South Sea"), was engaged in property development; design, manufacturing and marketing of consumer packaged electronics and provision of electronic manufacturing services. Turnover for the period was approximately HK$404.2 million (year ended 31 March 2003: HK$389.0 million) and net profit of HK$81.0 million (year ended 31 March 2003: HK$13.8 million) was recorded. The net assets value of the Group amounted to approximately HK$2,986.1 million, representing a value of HK$0.19 per share.

The increase in net profit was mainly attributable to the increasing profit from its information technology business and distance learning and application services while other businesses posted steady income for the Group.

Information Technology Business

This business division offers Internet Application Services to corporate clients, especially those small to medium enterprises, and continues to post strong performance during the period. This division recorded a revenue of approximately HK$211.0 million (year ended 31 March 2003: HK$159.5 million) and a segment profit of approximately HK$47.2 million (year ended 31 March 2003: HK$12.1 million).

The strong result was mainly due to increase in sales by the Company's subsidiary CE Dongli Technology Company Limited and contribution from the newly acquired two prominent Chinese corporations in the industry. The enlarged business group is believed to dominate over 60% market share in the domain name registration and virtual hosting services sector in China.

Financial Information Provision

During the period under review, this division of business posted steady income and profit contribution for the Group. Turnover for the period was approximately HK$73 million (year ended 31 March 2003: HK$70.6 million) and recorded a segmental profit of approximately HK$34.9 million (year ended 31 March 2003: HK$26.6 million). The Company dominates 85% of the futures market and 65% of the banking sector providing personal FOREX information market in China.

In August 2003, Standard & Poor's and Beijing Shihua International Financial Information Co. Ltd. ("Shihua"), a subsidiary of the Company, announced the formation of a strategic alliance to jointly launch information products and services on international currency and equities for China's investors. Standard & Poor's, a division of The McGraw-Hill Companies (NYSE: MHP), is a leading provider of financial, economic, and investment information and analytical services to the global financial community.

With such alliance, Shihua becomes Standard & Poor's first official partner in China and debuts Standard & Poor's proven research expertise, independent analysis, commentary and STARS ranking on the Shihua's financial information's platform. Together, they will empower Chinese investors and global market watchers with authoritative information about the global financial infrastructure, market trend and investment community, including real-time currency market commentary, market analysis, ratings and recommendations on Asian equities in bilingual format.

Distance Learning and Application Services

During the period under review, this division of business began to post profit contribution for the Group. Turnover for the period was approximately HK$42.9 million (year ended 31 March 2003: HK$2.8 million) and recorded a segmental profit of approximately HK$34.5 million (year ended 31 March 2003: segmental loss of HK$6.3 million). The satisfactory result was attributable to new contracts signed with the Office of National Education Cadre of Chinese Language for Foreigners (國家對外漢語教學領導小組辦公室).

Property Development

During the period under review, the Group recorded no turnover (year ended 31 March 2003: nil) and a segment loss of approximately HK$9.6 million (year ended 31 March 2003: HK$21.9 million) for this business division. The loss was mainly attributable to amortisation of goodwill for the period under review.

The governing authority in China has approved the detailed urban planning design and construction project conceptual design of the Shenzhen project, and development of such project will be in five phases. A renowned French design company, selected by means of public tender, has completed the first phase construction design involving gross floor area of approximately 170,000 sq.m. involving 8 blocks of residential buildings. Comprehensive construction work is expected to commence by the third quarter of 2004, and this project is expected to generate strong cash flow for the Group in 2005.

In addition, the Guangzhou project involves a total gross floor area of 1.08 million sq.m., and detailed urban planning design has been approved, and construction work for the first phase is expected to commence in the fourth quarter 2004.

Consumer Packaged Electronics and Electronics Manufacturing Services

During the period, turnover from this division was approximately HK$11.7 million (year ended 31 March 2003: HK$100.6 million) and a reduced segmental loss of approximately HK$15.1 million (year ended 31 March 2003: loss of HK$21.2 million) was recorded.

In view of the ongoing difficult business environment, the management has disposed of the manufacturing facilities of this division after careful consideration, but the design and trading of consumer packaged electronic products will remain. The management will also focus on research and development.

Liquidity, Financial Resources and Capital

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2003, net asset value of the Group amounted to approximately HK$2,986.1 million, including cash and bank balances of approximately HK$107.5 million, which was denominated mainly in Renminbi and Hong Kong dollars. As at 31 December 2003, the Group's aggregate borrowings decreased to HK$1,180.9 million (as at 31 March 2003: HK$1,487.3 million) including convertible notes amounted to HK$400 million issued by the Company (which all bears an interest rate of 1% per annum and with maturity from 31 December 2004 to 31 December 2005). Subsequent to the balance sheet date, convertible notes of HK$380 million were converted into 3,800,000,000 shares of HK$0.10 each in the capital of the Company. The decrease in borrowings is mainly due to net repayment of approximately HK$283 million during the period. For the Group's borrowings at 31 December 2003, approximately HK$777.5 million were bearing interest at fixed rates while approximately HK$403.4 million were at floating rates. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity, decreased to 39.5% as of 31 December 2003 from 54.9% as at 31 March 2003. The Group's contingent liabilities at 31 December 2003 were HK$241 million due to the guarantees given in connection with credit facilities.

As at 31 December 2003, land held for development in Hong Kong with carrying value of HK$76.2 million; property, plant and equipment with the net book value of approximately HK$631 million; shares in certain subsidiaries within the Group; certain investment in and amount advance to a subsidiary with a net balance of HK$178.3 in a subsidiary; undertakings on the part of the Group for the assignment of rentals from the letting of certain investment properties, and proceeds from sales of certain investment properties; certain listed securities with market value of approximately HK$397.2 million and certain bank deposits of HK$22.6 million; floating charge over certain assets of certain companies within the Group; certain portion of land held for development at Guang Hua Gong Lu, Hua Du City, Guangdong Province, China; and land held for development with lot no. K-708-5 at Liu Wan, Shekou, China together with all its sales proceeds were pledged as securities for credit facilities.

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 31 December 2003, the Group had approximately 5,931 employees (at 31 March 2003: 3,779 employees). The salaries and allowance of employees for the period ended 31 December 2003 was about HK$132.4 million (year ended 31 March 2003: HK$125.9 million).

Prospect

The Group continued to post strong results during the period. Looking ahead, it is the Group's strategy to continue to focus on its existing business given its leading position in the IT industry in China established over the past years.

Despite the strong performance displayed by the Company, the management believes that the value of the Company is yet to be unlocked by investors in the stock market. In a move to further enhance the overall corporate profile and clearer group structure, the management has undergone a series of corporate reorganization during the financial year including the change of financial year-end to 31 December.

On 29 December 2003, the Company and its listed subsidiary, South Sea jointly announced that Robina Profits Limited ("Robina"), a wholly owned subsidiary of the Company and South Sea have entered into the subscription agreement relating to the subscription of the convertible loan note in an aggregate principal amount of HK$200,000,000 at an initial conversion price of HK$0.018 to be issued by South Sea to Robina. Such move shall relief the immediate funding pressure of South Sea.

In addition, the Company proposed to implement the following:

(a) Capital reduction (the "Capital Reduction") which involves,

(i) adjusting the nominal value of the shares of HK$0.10 each of the Company by cancelling paid up capital to the extent of HK$0.09 on each of the issued shares and reducing the nominal value of all issued and unissued shares from HK$0.10 to HK$0.01; and

(ii) reducing the share premium account of the Company by an amount of HK$433,541,062.55;

(b) Distribution (the "Distribution") which involves applying the credit arising from the Capital Reduction to effect a distribution of substantially all of the shares of South Sea then held by the Company's wholly owned subsidiaries to the qualifying shareholders pro rata to their respective shareholding interests in the Company.

Furthermore, on 29 December 2003 South Sea and certain substantial shareholders of the Company have entered into the sale and purchase agreement ("Sale and Purchase Agreement") relating to the acquisition by the Company a total of 12,515,795,316 shares in the Company from such substantial shareholders at a consideration of HK$976,334,238, representing a price of approximately HK$0.078 each.

Subsequent to the balance sheet date, the above transactions as detailed in our circular dated 23 March 2004 were approved by the respective shareholders of the Company and South Sea on 16 April 2004. The completion of the Sale and Purchase Agreement is subject to, amongst others, the completion of the Capital Reduction and the Distribution, the timetable for implementation of which has not determined as yet. The preparation of documents for summons for direction and for petition in respect of the Capital Reduction and Distribution, under advice by its legal retainers, is now in progress, and that the same will be submitted to the Court once available.

Upon the completion of the transactions, the Company will become the 62.85% owned subsidiary of South Sea. The management believes that both the Company and South Sea will be trading under its fair value and shall benefit from such reorganization.