

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group's overall turnover for the year ended 31st March, 2004 decreased by 31% to approximately HK\$40,655,000 over last year, of which approximately HK\$39,184,000 and HK\$1,471,000 (2003: HK\$55,539,000 and HK\$3,599,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the year ended 31st March, 2004, the Group's consolidated net loss attributable to shareholders decreased by 52% to approximately HK\$72,467,000 as compared to that of the last year. The loss per share for the year was HK2.37 cents (2003: HK4.99 cents). The loss from the operation for the year under review was mainly due to:

- (i) the management has imposed further control on the operating costs, the administrative expense for the year was decreased by approximately HK\$14,329,000 or 18% over the previous year, which was mainly attributable to the decrease in staff costs by approximately 37%;
- (ii) allowances of approximately HK\$1,123,000 for the other debtors and deposits was made while the allowances made for last year was approximately HK\$25,975,000;
- (iii) amortization of deferred development costs amounted to HK\$18,706,000 and expenditures of approximately HK\$4,815,000 charged during the year for the research and development of the information technology projects; and
- (iv) unrealized gain on other investments of approximately HK\$15,600,000 but it was a loss of approximately HK\$5,565,000 in last year.

The Directors believe that the loss for the consecutive financial years will be improved once when the revenue from the group's technology projects is generated in the coming year. In fact, sales orders in respect of V-Dragon CPU and its mother board have been received, and sales revenue thereof will be recognised when the products are delivered in next year.

At 31st March, 2004, the Group's net asset value was HK\$390,736,000 and net asset value per weighted average number of 3,058,898,000 shares of the Company was approximately HK\$0.13 (2003: HK\$0.12).

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\$23,774,000 had been used for the general working capital of the Group.

During the year, 109,720,000 warrants had been exercised and the Company received approximately HK\$18,104,000 from the proceeds of the exercise of the warrants of which, approximately HK\$1,241,000 was used as working capital of the Group and the balance of approximately HK\$16,863,000 was placed as deposits with banks in Hong Kong at the end of the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2004, the Group had deposits with banks and other financial institutions in aggregate of approximately HK\$69,809,000 and marketable securities of approximately HK\$65,948,000. The Group has no significant exposure to foreign exchange rate fluctuations.

As at 31st March, 2004, the Group's total liabilities amounted to HK\$23,398,000 and represented approximately 6% (2003: 6%) to the shareholders' equity.

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

DEVELOPMENT COSTS OF I.T. PROJECTS

As at 31st March, 2004, accumulated costs incurred for the development of the Group's information technology projects amounted approximately to HK\$95,045,000 (2003: HK\$86,288,000). 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 year ended 31st March, 2004, the amortization of development costs amounted to approximately HK\$18,706,000 (2003: HK\$18,431,000). In additions, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$4,815,000 (2003: HK\$9,356,000).

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EMPLOYMENT AND REMUNERATION POLICIES

As at 31st March, 2004, the Group had a total of 125 employees, of which 89 are based in Hong Kong, 28 are based in Macau and 8 are based in the PRC. Total staff costs incurred during the year amounted to approximately HK\$30,222,000 (2003: HK\$44,663,000). 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, employees and consultants, according to the assessment of individual merit and performance.