

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 September 2004, the Group's turnover was approximately HK\$14.1 million, a decrease of 11% as compared to HK\$15.8 million for the last corresponding period. Operating loss for the period reduced significantly to HK\$2.1 million (2003: HK\$15.8 million) and loss per share was HK\$0.01 (2003: HK\$0.06).

The improvement in operating result for the period was attributable to technology related service. Loss for this business segment recorded HK\$6.3 million (2003: 15.0 million) which was decreased by 58% due to the Group's continuous effort to contain cost. Furthermore, the Group's key growth area in the mobile Internet business sector produced promising result in the first half of the year.

For prudent sake, a provision of HK\$1.1 million (2003: Nil) on doubtful debt was made in the property investment. Apart from that, the result of property investment remained stable when compared to last corresponding period.

Loss attributable to shareholders was HK\$3.7 million (2003: HK\$17.9 million).

Business review

In the first six months during the fiscal year, the Group continued to drive the strategy which focused on information technology ("IT") outsourcing and mobile Internet services markets. The Group has thus established stable foundation and set the stage for promising results for the second half of the year.

During the first quarter, the Group successfully launched its first nationwide value-added wireless, Multimedia Messaging Service ("MMS") product. The service provides content with a combination of text, sounds, images to MMS capable handsets. Contents include music, photos, games and other entertainment services.

During the first six months of this financial year, the mobile Internet business has achieved an average of double-digit monthly revenue growth.

A major key success factor during the first half of the year was the launch of an interactive mobile entertainment website platform www.ijcool.com in May this year. This website serves as the first cross platform forum for mobile users to enjoy interactive entertainment through a mobile Internet environment.

The Group have had tremendous growth since the launch of the service, the service has achieved explosive popularity in such a short time. In December, the website has achieved an average daily hit rate of above 25 million. The website is now ranked among the top 400 websites worldwide in terms of daily hit rate, according to Alexa Research. The results of www.ijcool.com exceeded the Group's expected results and will be one of the key contributors to the Group's new revenue growth of the year.

Another pillar of the Group's core business IT Outsourcing Services also maintained a stable business in the first half of the year. More services were available such as software development, data management services as well as its call center services.

Future outlook

The Group's presence in China continues to leverage on the fast and exciting development of the telecommunication and Internet markets. However, we do foresee the tightening of the wireless market; Ministry of Information Industry will continue to execute regulatory policies and implement tighter control of the wireless operators and the value added wireless industry. As a result, wireless operators will continue to apply self control to manage this industry. However, we do not see that this will have a major impact to the continuous growth of this industry. The needs of wireless value added services will continue as the wireless subscriber base and the technology evolution will continue to have a natural growth pattern.

The Group also sees the continuous growth at MMS, WAP, and Internet market and this trend will give the Group a good mobile Internet environment for business growth. The Group will continue to invest in deepening our product line. In addition, we will continue to expand our service offerings through the different delivery platforms such as IVR, LBS and 3G. Another major area of investment will be to continue to improve our service quality by improving our service delivery infrastructure and customer service support.

While maintaining its steady growth, IT outsourcing services will expand services by offering value-added call center and data management services. The competitive edge enjoyed by the Group is the integration of multi-platform technology that spread from voice to data services. The Group believes with its growing competencies in both the consumer and enterprise markets, the integration of the two will inevitably be the Group's core strength in winning market share in the area of the new integrated medium.

Financial resources

1. *Liquidity and financial resources*

As at 30 September 2004, the Group's shareholders' fund amounted to HK\$224.2 million (31 March 2004: HK\$227.9 million) and the net asset value per share was HK\$0.77 (31 March 2004: HK\$0.78).

The Group's funding was mainly derived from internal resources and credit facilities from bank and other companies. As at 30 September 2004, the cash and bank balances were HK\$15.9 million (31 March 2004: HK\$13.6 million).

Total net borrowings (total borrowings net of bank and cash balances) of the Group as at 30 September 2004 amounted to HK\$156.0 million (31 March 2004: HK\$159.2 million), of which all repayable within one year. The upsurge in short term loans for the period was due to the strategic replacement of a mortgage loan by a secured short-term bank loan (the "New Loan") for which the bank agreed to provide the Group with additional facility. The New Loan, which carries interest at commercial rate, secured by the Group's investment properties and a corporate guarantee provided by the Company. The final maturity of the New Loan is subject to annual review by the bank. The Directors believe the Group can secure the renewal annually in view of our good credit history and the prime quality of our security. During the period, the Group had successfully negotiated with New World Finance Company Limited to extend the maturity date of a loan with principal amount of HK\$48.8 million from 1 October 2004 to 1 October 2005.

On 22 November 2004, the Directors made a public announcement (the "Announcement") disclosing the following transactions:

- (i) To raise approximately HK\$29 million before expenses by way of a rights issue of not less than 145,624,029 Rights Shares and not more than 149,250,329 Rights Shares at a price of HK\$0.2 per Rights Share on the basis of one Rights Share for every two existing shares; and
- (ii) Application of the whitewash waiver.

Details and conditions of the above transactions are fully described in the Announcement.

2. *Gearing*

At the balance sheet date, the gearing ratio of the Group was 0.41 (31 March 2004: 0.41) which was calculated based on the Group's total borrowings to total tangible assets.

3. *Interest risk exposure and foreign currency exposure*

Interests on bank and other loans 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*

It is mainly comprised of contracted commitments relating to an uncalled portion of other investments.

5. *Charges on assets*

Investment properties with aggregate net book value of HK\$356 million (31 March 2004: HK\$310 million) pledged to a bank as collaterals for banking facilities.

6. *Contingent liabilities*

In March 2004, a PRC government institute filed a claim to the PRC court against the Company and certain of its subsidiaries for the infringement of rights to derive benefits from using the city mapping information contents in the PRC and claimed against the Group for an aggregate amount of RMB5 million and an injunction for further usage of such information. By order issued by the respective PRC court, the Group is required to freeze its asset value to the extent of RMB4.5 million in connection with the above claim. As at 30 September 2004, the court has taken action to freeze certain bank balances of certain subsidiaries of the Group in the amount of RMB0.5 million only. The Directors consider that such court order will not materially and adversely affect the operations and working capital of the Group. The Directors had consulted the lawyers in the PRC who considered that these claims were without merits. Accordingly, no provision has been made in the accounts for the period ended 30 September 2004.

Employees

As at 30 September 2004, the Group employed approximately 130 full-time employees in Hong Kong and Mainland China. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodical basis. Apart from retirement schemes, 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.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 30 September 2004 (2003: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 September 2004, the interests or short positions of the Directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in issued shares

Name of director	Capacity	Number of shares	Percentage of shareholding
Lo Lin Shing, Simon	Beneficial	24,063,845 (Note)	8.26%
Lau Wai Piu	Beneficial	1,200	0.0004%

Note: Such shares are held by Golden Infinity Co., Ltd. of which Mr. Lo Lin Shing, Simon is interested in the entire issued share capital. Accordingly, Mr. Lo is deemed to be interested in 24,063,845 shares held by Golden Infinity Co., Ltd. under the SFO.