

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Group's overall turnover for the period ended 30th September, 2004 increased approximately by 15% to approximately HK\$22,755,000 over last period, of which approximately HK\$22,581,000 and HK\$174,000 (2003: HK\$18,596,000 and HK\$1,242,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the period ended 30th September, 2004, the Group's consolidated net loss attributable to shareholders increased to approximately HK\$80,344,000 as compared to that of the last period. The loss per share for the period was HK2.41 cents (2003: HK0.81 cents). The increase in loss for the period was due to that:

- (i) marketing and promotional expenses for the group's information technology products were increased by approximately HK\$3,900,000 over the previous period;
- (ii) an unrealized loss on investment in securities of approximately HK\$38,882,000 while it was an unrealized gain of approximately HK\$16,410,000 in previous period; and
- (iii) due to continuous losses incurred by an associated company, an impairment loss of goodwill reserve of HK\$3,000,000 was recognized in current period.

The Directors believe that the loss for the consecutive financial periods will be improved once when the sales revenue in respect of V-Dragon products and eTown computers is recognized upon the delivery of products in the coming year.

At 30th September, 2004, the Group's net asset value was HK\$317,028,000 and net asset value per weighted average number of 3,333,928,137 shares of the Company was approximately HK\$0.10 (2003: HK\$0.12).

### Liquidity and Financial Resources

As at 30th September, 2004, the Group had bank and cash balances in aggregate of approximately HK\$21,833,000 and short-term listed securities of approximately HK\$26,020,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30th September, 2004, the Group's total liabilities amounted to approximately HK\$25,453,000, representing approximately 8% (2003: 8%) to the shareholders' equity. There was no outstanding bank loan as at 30th September, 2004.

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.

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

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

As at 30th September, 2004, 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 amortization amounted approximately to HK\$43,385,000 (2003: HK\$52,545,000). 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, 2004, the amortization of development cost amounted to HK\$5,624,000 (2003: HK\$9,105,000). In addition, research and development expenditures incurred directly as expenses during the period amounted to HK\$384,000 (2003: HK\$402,000).

### **Employment and Remuneration Policies**

As at 30th September, 2004, the Group had a total of 128 employees of which 73 are based in Hong Kong, 52 in Macau and 3 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$11,420,000 (2003: HK\$13,216,000). 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, 2004 (2003: 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, 2004.