

FINANCIAL RESULTS

The Group's overall turnover for the year ended 31st March, 2005 increased by 16% to approximately HK\$47,247,000 over last year, of which approximately HK\$47,010,000 and HK\$237,000 (2004: HK\$39,184,000 and HK\$1,471,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the year ended 31st March, 2005, the Group's consolidated net loss attributable to shareholders increased by 125% to approximately HK\$162,931,000 as compared to that of the last year. The loss per share for the year was HK4.84 cents (2004: HK2.37 cents). The analysis of the income statement is as follows:

(i) *Turnover*

As the publication of some popular Japanese comics, such as "Death Note" received high penetration and sales during the year, turnover of publishing business for the year under review increased by approximately HK\$7,826,000, representing 20%. The technology projects of eTown and eBook recorded sales of approximately HK\$237,000 for the year;

(ii) *Administrative expenses*

The administrative expenses of the Group for the year increased by approximately HK\$17,455,000, representing 27%. The increase mainly representing the marketing and promotion expenses incurred for the Group's technology products in the PRC and inventories written down to net realisable value of the technology products during the year;

(iii) *Research and development*

Following the launch of technology products during the year in the PRC, the amortisation of development costs increased by approximately HK\$5,112,000 and the research and development expenditures charged directly as expenses increased by approximately HK\$4,004,000. In addition, in response to the rapid change of the I.T. environment, an impairment loss in respect of development costs of HK\$6,700,000 (2004: nil) was made for the year;

(iv) *Net unrealised loss on other investments*

The Group made net unrealised loss on investments in marketable securities of approximately HK\$42,324,000 (2004: net unrealised profit of approximately HK\$15,600,000);

(v) *Write back of impairment loss previously recognised in respect of property*

With reference to the open market value of the property valued by an independent professional valuer, an impairment loss previously recognised of HK\$23,000,000 was written back by the Group;

(vi) *Allowances and provision*

During the year, allowances of approximately HK\$5,591,000 (2004: nil) for loans to two associated companies of the Group were made due to the continuous losses incurred by the associated companies and allowances of approximately HK\$8,166,000 (2004: HK\$1,123,000) were made for long outstanding trade and other debtors; and

(vii) *Impairment losses on investments in associates and jointly controlled entity*

Due to the continuous losses incurred by an associated company, additional impairment loss was made in respect of goodwill in reserve of HK\$10,777,000 (2004: HK\$6,000,000) for the year. The continuous losses incurred by a jointly controlled entity in the PRC resulting in an impairment loss in respect of premium on its formation of HK\$3,491,000 (2004: nil) for the year.

The Directors are still optimistic about the prospects of the Group's business and believe that financial performance of the Group for the coming years will be improved once when the revenue from the Group's technology projects is generated.

At 31st March, 2005, the Group's net asset value was HK\$300,111,000 and net asset value per weighted average number of 3,366,259,000 shares of the Company was approximately HK\$0.09 (2004: HK\$0.13).

WARRANTS

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in relation to 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 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.

During the financial year, 70,580,000 (2004: 109,720,000) warrants had been exercised and the Company received the net proceeds of approximately HK\$11,646,000 from the exercise of the warrants.

Subsequent to the balance sheet date and up to the expiry date of the warrants, 247,380,000 warrants had been exercised and the Company received the net proceeds of approximately HK\$40,817,000 from the exercise of the warrants.

PURCHASE OF ASSETS AND LICENCE OF TECHNOLOGY

On 27th May, 2005, the Group and Transmeta Corporation signed agreements, whereby the Group should (i) purchase the Acquired Crusoe Assets and Technology for US\$5,000,000; and (ii) be licensed to manufacture and sell the Efficeon Microprocessor and to use the Manufacturing Tools (for manufacture and sale of the Crusoe Microprocessor) for US\$10,000,000 plus on-going royalty. Under the Listing Rules, the agreements together constitute a major transaction of the Company and shall be approved by shareholders. By the date hereof, the Company needs time to collate, finalise and include necessary financial information in the relevant circular. The Company has applied to the Stock Exchange to extend time to despatch the circular on or before 9th August, 2005.

CONVERTIBLE BONDS

On 2nd June, 2005, the Company entered into a placing agreement with a placing agent, pursuant to the placing agreement, the placing agent conditionally agreed to place on a best effort basis the convertible bonds of the Company up to an aggregate principal amount of HK\$300,000,000. The convertible bonds will carry a right to convert into new shares of the Company at the conversion price of, subject to adjustment, HK\$0.6 per share. Accordingly, 500,000,000 shares will be allotted and issued upon full conversion of the convertible bonds. The net proceeds of the placing of the convertible bonds will be firstly applied towards the repayment of the short term loans from the Chairman of the Group and an independent third party, and then retained as the working capital of the Group. As at the date of this report, the placing of the convertible bonds had not yet been completed and is still proceeding.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2005, the Group had bank balances and deposits with other financial institutions in aggregate of approximately HK\$15,194,000 and marketable securities of approximately HK\$23,036,000. The Group has no significant exposure to foreign exchange rate fluctuations.

As at 31st March, 2005, the Group's total liabilities amounted to HK\$24,325,000 and represented approximately 8% (2004: 6%) to the shareholders' equity.

In June, 2005, the Group obtained an unsecured, interest-free loan of HK\$29,000,000 from the Chairman of the Group and a secured, interest bearing, fixed short term loan of HK\$70,000,000 from an independent third party. The loans were used as part of the balance payment of the consideration for the purchase of assets and the licence fee payable under the licence of technology. It was intended that the loans would be repay by the net proceeds to be received from the placing of convertible bonds of the Company.

In view of the above, the Directors believes that the Group will have sufficient liquidity to finance its daily operation, and the net proceeds from issue of convertible bonds of the Company in the future would further strengthen the financial position of the Group.

DEVELOPMENT COSTS OF I.T. PROJECTS

As at 31st March, 2005, accumulated costs incurred for the development of Chinese language computer operating system, Chinese processors, Chinese electronic books and other Linux-based Chinese computer software amounted approximately to HK\$112,961,000 (2004: HK\$95,045,000) and the net book value was HK\$32,955,000 (2004: HK\$45,557,000). These development costs were 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, 2005, the amortisation of development costs amounted to approximately HK\$23,818,000 (2004: HK\$18,706,000). In additions, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$8,819,000 (2004: HK\$4,815,000).

EMPLOYMENT AND REMUNERATION POLICIES

As at 31st March, 2005, the Group had a total of 139 employees, of which 70 are based in Hong Kong, 56 are based in Macau and 13 are based in the PRC (2004: 89; 28 and 8 respectively). Total staff costs incurred during the year amounted to approximately HK\$28,518,000 (2004: HK\$30,222,000). 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.