

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 September 2005, the Group's consolidated net loss attributable to shareholders decreased approximately by 27% to approximately HK\$58,291,000 as compared to that of the last period. The loss per share for the period was HK1.56 cents (2004: HK2.41 cents). The analysis of the income statement is as follows:

(i) *Turnover*

The Group's overall turnover for the period ended 30 September 2005 increased approximately by 12% to approximately HK\$25,458,000 over last period, of which approximately HK\$25,248,000 and HK\$210,000 (2004: HK\$22,581,000 and HK\$174,000) were attributable to our business of comics publication and Chinese information infrastructure respectively;

(ii) *Administrative expenses*

The administrative expenses of the Group for the period was decreased by approximately HK\$3,142,000, representing 9%, which was mainly attributable to the decrease in the amount of HK\$6,635,000 in advertising and promotional expenses in the Group's technology projects and increase in the amount of HK\$2,375,000 in relation to the staff cost of the Group as well as general administrative expenses in the amount of HK\$1,118,000;

(iii) *Provision for claim*

In 2000, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 in relation to a guarantee given to the plaintiff for printing charges of "Tin Tin Daily News" for the period from March 2000 to June 2000. In October 2005, the Plaintiff accepted a relatively modest amount of HK\$7,500,000 (inclusive of all the Plaintiff's legal costs and expenses and interests accrued since 2000) and discontinued all claims against the Company. Accordingly, a provision of HK\$7,500,000 has been made in financial statements;

(iv) *Net unrealised loss on financial assets at fair value through profit and loss*

The finance assets such as investment in listed securities were measured by the Group at their fair value as at 30 September 2005. An net unrealised loss of approximately HK\$3,930,000 was recorded in the financial statements;

(v) *Finance costs*

The increase in finance costs of approximately HK\$1,520,000 for the period was the result of interest expenses related to the secured borrowing of HK\$70,000,000 obtained by the Group in June 2005 for the balance payment of the asset purchase agreement and licence agreement; and

(vi) *Allowance for loans to associate*

During the period, allowances of approximately HK\$5,400,000 (2004: nil) for loans to an associated company of the Group were made due to the continuous losses incurred by the associated company.

At 30 September 2005, the Group's net asset value was HK\$316,544,000 and net asset value per weighted average number of 3,734,669,763 shares of the Company was approximately HK\$0.08 (2004: HK\$0.10).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Convertible Bonds

On 2 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 would carry a right to convert into new shares of the Company at the conversion price of, subject to adjustment, HK\$0.6 per share. Subsequent to obtaining of the alternative financing from a director and an independent third party in June 2005, the Company decided to terminate the placing of convertible bonds by mutual agreement with the placing agent with effect from 29 July 2005.

Warrants

On 6 Jun 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 8 July 2003 to 7 July 2005, both days inclusive. The placing of warrants was completed on 4 July 2003.

During the period 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\$40,817,700 from the exercise of the warrants.

On 18 August 2005, the Company entered into a placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants conferring rights to subscribe up to HK\$113,520,000 in cash for sales of the Company at an initial subscription price of HK\$0.172 per share during the two years period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of warrant was completed on 28 September 2005. The net issue proceeds of the Placing of about HK\$24,161,000 will be mainly used for general working capital as to advertising and promotion of the Group's technology products and general administrative expenses of the Group.

Purchase of Assets and Licence of Technology

On 27 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. The upfront payments of US\$15,000,000 were made in June 2005, and currently held in the escrow account of an independent financial institution. On 27 October 2005, the subject major transaction of the Company was approved and passed as an ordinary resolution by the shareholders of the Company at the special general meeting of the Company. By the date hereof, the subject major transaction is pending completion of the remaining conditions stipulated in the agreements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Issue of Shares of Culture.com Technology Limited

On 30 August 2005, Culture.com Technology Limited ("Culture.com Technology") entered into a conditional subscription agreement with REXCAPITAL International Holdings Limited ("REXCAPITAL") in relation to the subscription by REXCAPITAL of 100 new ordinary shares of HK\$1.00 each in the share capital of Culture.com Technology ("Subscription Shares") at a consideration of the lower of the sum of HK\$73,500,000 or 10% of the valuation value of such new shares in Culture.com Technology to be satisfied by REXCAPITAL issuing the appropriate number of new ordinary shares in the share capital of REXCAPITAL in favour of Culture.com Technology. At the date of completion, the Subscription Shares will represent 10% of the enlarged issued share capital of Culture.com Technology. On 28 November 2005, as additional time was required for the independent professional consultant appointed by REXCAPITAL to prepare a report on the valuation value, Culture.com Technology and REXCAPITAL had agreed to extend the long stop date of the transaction to 31 December 2005.

Pledge of Assets

As at 30 September 2005, secured borrowing repayable within one year amounted to HK\$70,000,000 was secured by legal charge over the leasehold land and building and investment properties of the Group with aggregate carrying value of approximately HK\$73,604,000.

Liquidity and Financial Resources

As at 30 September 2005, the Group had bank and cash balances in aggregate of approximately HK\$27,667,000 and financial assets at fair value through profit and loss of approximately HK\$16,437,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30 September 2005, the Group had a net current asset of approximately HK\$165,173,000 (31 March 2005: HK\$135,464,000) and a current ratio of 2.37 (31 March 2005: 6.57). The Group's total liabilities as at 30 September 2005 amounted to approximately HK\$120,903,000 and represented approximately 38.19% (31 March 2005: 0.08%) to shareholders' equity.

In view of the above, the Directors believe that the Group will have sufficient liquidity to finance its daily operation, and the net proceeds from exercise of 2007 Warrants in the future would further strengthen the financial position of the Group.

Employment and Remuneration Policies

As at 30 September 2005, the Group had a total of 169 employees of which 70 are based in Hong Kong, 53 in Macau and 46 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$13,795,000 (2004: HK\$11,420,000). Remuneration packages are maintained at competitive level and review 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 30 September 2005 (2004: nil).