Annual Report 2005-2006

CULTURECOM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 343)

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cheung Wai Tung *(Chairman)*
Mr. Chu Bong Foo *(Vice-Chairman)*
Mr. Henry Chang Manayan
Mr. Wan Xiaolin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Man To
Mr. Wang Tiao Chun
Mr. Joseph Lee Chennault

COMPANY SECRETARY

Mr. Cheung Wai Keung, Cecil

QUALIFIED ACCOUNTANT

Mr. Cheung Wai Keung, Cecil

AUDIT COMMITTEE

Mr. Lai Man To
Mr. Wang Tiao Chun
Mr. Joseph Lee Chennault

REMUNERATION COMMITTEE

Mr. Lai Man To
Mr. Wan Xiaolin
Mr. Wang Tiao Chun

PRINCIPAL BANKERS

Bank of China (Hong Kong)
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank

SOLICITORS

Michael Li & Co.
Appleby Spurling Hunter

AUDITORS

Deloitte Touche Tohmatsu

PUBLIC RELATION

PR Concepts Company Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE

Culturecom Centre
47 Hung To Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

COMPANY WEBSITE

www.culturecom.com.hk

STOCK CODE

343

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31 March 2006 amounted to HK$46,221,000 (2005: HK$51,354,000) of which HK$41,731,000 (2005: HK$47,010,000) was attributable to the business of comic publication of the Group, HK$412,000 (2005: HK$237,000) was attributable to the Chinese information infrastructure of the Group and HK$4,078,000 (2005:HK$4,107,000) was attributable to the rental income from investment properties of the Group. Loss attributable to shareholders, taking into account taxation, was HK$159,357,000 (2005: HK$162,931,000). The loss per share was HK4.34 cents (2005: HK4.84 cents).

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2006.

BUSINESS REVIEW

In recent years, year-by-year soaring investment risks pertaining to the information technology (IT) sector have dampened the IT investment sentiments in the capital market. Despite that China has delivered a strong demand for IT core technologies, however, without a favorable investment environment for core infrastructure technologies of prolonged investment cycles and capital intensive natures (including software operating systems and hardware core CPU), individual single effort in such aspect was seemingly without any substantial strengths, and somehow was cruelly but factually impracticable. With gradual withdrawals of other IT players, under prevailing conditions, it seemed to us that more fruitful effects may be gained by being a trend-follower of engaging in processed or sub-contracting segments as our counterparties. In midst of such an environment, it is an indispensable part of our protection policy to mitigate risks through a healthy and zero-debt corporate structure.

The Group has adhered itself to a Chinese culture-cored technologies since the joining of Mr. Chu Bong Foo. A micro-typed "Chinese Character Generating Engine" (CCGE), representing the essence of years of efforts and the basis of the "genetic philosophy of Chinese characters" of Mr. Chu, was rolled out with an envisaged embedment into any and all kinds of hardware or CPU for smooth picturing of all Chinese characters, including being a free and unrestricted access tool for the reading and writing of literature books of Chinese history, heralding an end to the cumbersome bottle neck in tackling Chinese characters. On this basis, a new horizon will be explored for the Chinese intelligent IT technologies.

In 2005, the volatility of the entire IT market was substantially out of the majority professionals' expectation. Both hardware and software markets were no exceptions to unexpectedly high risks. The year marked a year of tough challenges for our technological business development. The Group entered into the relevant agreements with Transmeta Corporation in respect of the acquisition of Crusoe CPU assets and technologies as well as the licensing of the production and sale of Efficeon CPU in China in May 2005, and an approval for such transaction was granted at the special general meeting held in October 2005. Notwithstanding, given the sophisticated procedures for advanced technology exports and the potentially excessive risks for the Group in the process of the acquisition, the Group decided not to proceed with the acquisition by withdrawing all acquisition funds after due reassessment and repeated researches by the Group's Board of Directors and professional consultants.

Such acquisition transaction represented the first transaction of its kind in the history of the United States. The Group has taken a path that goes through a nearly three-year planning and preparation process for such project. Due to the fact that such acquisition was eventually in vain, it was apparent to the Group that certain adjustments have to be made to our development plans of IT core technologies and the related asset investments. Appropriate write-offs and postponements should be made to high-risk technologies and assets according to practicable accounting standards in order to maximize cost and expense reductions. Our vital mission is to sustain a zero-debt condition, sufficient cash reserve and sound status.

On the other side, despite of unsuccessful acquisition, our self-developed CCGE technology has aroused far-reaching responses from the United States. Specifically, fresh know-how and new insights into CCGE technology and its application were enlightened amongst individuals from US government related institutions, some university research institutions and certain sizeable technological companies. In addition, CCGE embedded technology was proposed to be used in the inner cores of operating systems (kernel), CPU and hardware levels, and to be effectively applied in micro-sized laptop devices and intelligent search engines.

Development of Technological Business

In light of rapidly changing IT investment environment, extraordinary political sentiment, unpredictable international trades and uncertain export limitations, the Group has always promptly kept itself abreast of the ever evolving technological advancements by making unprecedented determination towards the consolidation of the resources and portfolio mix in respect of technological products. Our ongoing projects are targeted to create shareholders' values, and projects without effective shareholders' returns will be recognized as non-core items. Non-core assets will be ceased, terminated, merged or transferred.

As to the technological development of CCGE, the Group has completed "Cangjie Version 6 Searching and Retrieval System". Capitalizing on years of research results on literatures and history made by Beijing authorities, the system is capable of providing a more comprehensive platform for the reading and writing of all ancient literature history. Apart from bronze characters and tortoise bone scripts, the system was embodied with a total of over 78,000 characters, and a conversion list for GB, Big5 and Unicode codes as well as an internal conversion list for traditional and simplified characters within Cangjie codes. The roll out of this unified version of traditional and simplified Cangjie represented a gradual convergence of the traditional and simplified characters. This implies that users can just instantly produce any Chinese characters, whether in their traditional or simplified forms, which come to their minds. In this regard, the traditional-character-based computer platforms will be gradually compatible of detecting simplified characters which co-exist in traditional forms, thus resolving the non-convertibility problems for characters existing in both traditional and simplified forms. In the Group's belief, regarding the CCGE equipped with the features of "Cangjie Version 6 Searching and Retrieval System", more tremendous market prospects will be enjoyed in the scopes of laptop computer devices and Chinese intelligent search engines.

The eTown project of the Group has also to be temporarily slowed down. Though certain breakthroughs were made in terms of each pilot work and its implementation, according to our pilot tests, the success attribute of the eTown project was neither dependent upon its technical equipment nor upon the availability of suitable affordable computers for farmers, but relied on the capability of producing suitable computer platforms for handling mass agricultural produces and their transactions. While certain progress was gained in respect of cooperation with other institutions for these kinds of produces, a full promotion is yet to be started upon the completion of the overall pilot schemes and the related work.

Comics and Multimedia Business

Faced with growing recreational alternatives among customers and increasing book-letting stores, the traditional comics publishing business in Asia is currently imposed to a flurry of challenges. Turnover dropped by 11.2% from HK$47 million in 2005 to HK$41.7 million for the year. The local comics business remained a steady income generator, however, rising popularity of comic book letting stores and parallel goods created severe impacts on our imported Japanese comics business, as noted from a significant drop of 15% in our Japanese comics business income from HK$35 million in 2005 to HK$30 million during the year. As a council member of the Hong Kong Joint Animation & Comics Association (香港動漫畫聯會), we have taken an active leap in negotiating about revisions on the prevailing relevant regulations with the related departments of the Hong Kong Government and the Legislative Council in order to put into place copyright mechanisms through regulations on books or comics lettings and parallel goods.

On the scope of diversified overseas licensing markets, notable achievements were attained in 2006. New markets including Spain, France, Vietnam and the United States were explored partially attributable to the international fame of our licensed films. Accordingly, income sources from new markets are expected to strengthen our existing overseas markets namely Japan, Taiwan, Indonesia, Thailand and Singapore in 2006.

2006 embarked a year of milestone for comics sector as a cross-media business. The "Dragon Tiger Gate" movie, which is licensed by the Group and filmed in coincidence with the 36th anniversary of the comic title, has drawn widespread attention during the France Films Expo. The movie is currently planned to be theatrically released in around 64 countries, and we anticipate it will upgrade Culturecom's comics from a local legend to an international brand name. The ancillary online games and mobile games of the comics, which the Group has licensed to develop, will also be launched simultaneously with the movie's premiere in Asia Pacific at the end of this July. The movie is scheduled to be shown in more than 1,000 cinemas in America and Japan sometime in the second quarter of 2007. Licensing of a television drama series based on the comics has also been concluded and the series is scheduled to be filmed and broadcasted in the coming year.

In addition to "Dragon Tiger Gate", the Group has also licensed another martial art comic title "Palm of Buddha" for developing related MMORPG games and mobile games by domestic computer games software companies. The games will be launched nationwide in November of this year. Given that online comics are gaining increasing penetration, licensing income from the authorization of online comics has also been increasing. On the other hand, performance of the licensed merchandises of comic title segment has been stable during the year.

With the continuous development of cable television and Internet protocol television (IPTV) markets in Mainland China, the Company has received numerous calls from enterprises in Hong Kong, Mainland and Taiwan for grant of permission to broadcast the Company's comic titles on their own platforms. The Directors believes that the development of multimedia market will become a key revenue contributor to the Group, however this is yet to be dependent upon the imminent market developments.

We believe that as the multimedia market is becoming increasingly mature, Culturecom is well-poised to generate greater shareholders' returns by leveraging on our extensive pool of strong assets and rich intellectual properties in both comics and multimedia segments.

PROSPECTS

The Group's management has endured a number of tremendous tests and trials in the course of realizing our technology know-how. With a blended mixture of painful lessons and valuable experience from the past, the management is aware that it is never an easy task to maintain a healthy zero-debt status and to steadfastly strive against tough times. However, enormous resources have been directed to "pure technology" sectors as I failed to effectively capture the direction of the "technology culture". While reviewing this regretful but disappointing fact, I never take our shareholders' patronage for granted.

After a series of rationalization and streamlining, the Group is today on a healthy track. In the culture technology sector, the Group remained well-positioned in our leading technological assets of "CCGE" and our agricultural e-commerce namely "eTown", which was a product derived from long-lasting trials and modifications. We also own the most extensive comics library in Greater China which is of significance during a speedily expanding multimedia epoch. With the internationalized release of the "Dragon Tiger Gate" movie, our customer base was surging. For multimedia segment, our licensing customers have been extended to include regions and countries such as Hong Kong, Southeast Asia, Taiwan, Korea and Japan, while licensing negotiations with North American and European customers are still underway. The upgraded and simplified version of CCGE with "Cangjie Version 6 Searching and Retrieval System" is not only featured with focused embedment into sophisticated CPU, but also characterized with integrated bundling with each and any type of software and hardware, so that the version is now easier to be integrated with the existing information processing units (both software and hardware). This lowered barrier will be conducive to flourishing market development and to enlarging customer profiles.

Looking ahead, the Culturecom Group will no longer be simply in pursuit of technological developments for its own sake. Instead, we will focus on technological applications, including collaborations with hi-tech enterprises and their technologies to foster our technology-based culture market. With a defined and clear mission of developing our technology-pillar culture market, we will commit ourselves to create greater shareholders' values.

APPRECIATION

I would like to dedicate sincere gratitude to the Board of Directors and to all our staff for their dedicated efforts over the year and to all our customers, suppliers, business partners and our shareholders for their enthusiastic support to the Group.

Cheung Wai Tung
Chairman

Hong Kong, 24 July 2006

FINANCIAL RESULTS

For the year ended 31 March 2006, the Group's consolidated net loss attributable to shareholders decreased by 2% to approximately HK$159,357,000 as compared to that of last year. The loss per share for the year was HK4.34 cents (2005: HK4.84 cents). The analysis of the income statement is as follows:

(i) Turnover

The Group's overall turnover for the year ended 31 March 2006 decreased approximately by HK$5,133,000 to approximately HK$46,221,000 over last year, of which approximately HK$41,731,000, HK$412,000 and HK$4,078,000 (2005: HK$47,010,000, HK$237,000 and HK$4,107,000) were attributable to our business of comics publication, Chinese information infrastructure and rental income from investment properties respectively.

(ii) Administrative expenses

The increase in administrative expenses of the Group for the year was mainly due to a legal claim of HK$7,500,000 in relation to a guarantee for printing charges which has been accounted for in the financial statement under review.

(iii) Finance costs

The finance costs of approximately HK$3,893,000 for the year was mainly 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 which have been terminated in February 2006.

(iv) Allowances for amounts due from associates and amount due from a jointly controlled entity

Due to the continuous losses incurred by the associates, additional allowances for amounts due from associates was made in the amount of approximately HK$33,704,000 (2005: HK$5,591,000) for the year. The continuous losses incurred by a jointly controlled entity in the PRC resulting in an allowance for amount due from a jointly controlled entity of approximately HK$2,234,000 (2005: Nil) accounted for the year.

(v) Development cost of I.T. Projects

The amortization of development cost amounted to approximately HK$17,105,000 (2005: HK$23,818,000) and the balance of development cost of approximately HK$15,850,000 was fully provided in the income statement. In addition, research and development expenditures charged directly as expenses during the year amounted to approximately HK$4,362,000 (2005: HK$8,819,000).

At 31 March 2006, the Group's net asset value was HK$210,812,000 and net asset value per weighted average number of 3,670,446,000 shares of the Company was approximately HK$0.06 (2005: HK$0.09).

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 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. Subsequent to the alternative financing obtained 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.

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK$36,000,000 convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to require the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK$36,000,000 to be issued by the Company. The conversion price of Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively "Convertible Bonds") is HK$0.1 per new ordinary share of HK$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds are expected to be approximately HK$34,800,000 and will be used as general working capital of the Group. The placing of the Tranche 1 Convertible Bonds is expected to be completed on or before 31 July 2006.

WARRANTS

On 6 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 ("2005 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 shares during the two years period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4 July 2003.

During the year up to the expiry date of the 2005 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.

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 ("2007 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 2007 Warrants was completed on 28 September 2005. The net issue proceeds of the placing of about HK$24,145,000 will be mainly used for general working capital of the Group.

During the year, no registered holders of 2007 Warrants exercised their rights to subscribe for the Company's shares.

PURCHASE OF ASSETS AND LICENCE OF TECHNOLOGY

On 27 May 2005, the Group and Transmeta Corporation signed the Asset Purchase Agreement and the Licence Agreement ("the 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 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. In early February 2006, the Group was advised that the necessary U.S. technology export control approvals could not be obtained for the Agreements within the time frame necessary to satisfy the required commercial requirements. As a result, the Group agreed with Transmeta Corporation to mutually terminate the conditional Agreements and a Mutual Termination Agreement was entered into on 7 February 2006. After termination, the upfront payments had been refunded by the escrow agent on 14 February 2006.

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 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. As the parties were unable to appoint a suitable professional consultant to prepare the valuation report, the valuation value had not yet been determined and the valuation report had not yet been issued, the conditions to the subscription agreement therefore could not be fulfilled or waived on or before the extended Long Stop Date of 15 February 2006. Therefore, the subscription agreement had lapsed and ceased to have any further effect from 16 February 2006.

PLEDGE OF ASSETS

A short term borrowing of HK$70,000,000 secured by legal charge over the leasehold land and building and investment properties of the Group has been discharged on 28 February 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had bank and deposits with other financial institutions balances in aggregate of approximately HK$19,536,000 and held-for-trading investments of approximately HK$24,552,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 31 March 2006, the Group had a net current asset of approximately HK$72,999,000 (31 March 2005: HK$135,192,000) and a current ratio of 4.77 (31 March 2005: 6.56). The Group's total liabilities as at 31 March 2006 amounted to approximately HK$22,798,000 and represented approximately 10.81% (31 March 2005: 9.32%) 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 the placing of convertible bonds and the exercise of 2007 Warrants in the future would further strengthen the financial position of the Group.

EMPLOYMENT AND REMUNERATION POLICES

As at 31 March 2006, the Group had a total of 139 employees of which 61 are based in Hong Kong, 38 in Macau and 40 in the PRC. Total staff costs incurred during the year amounted to approximately HK$29,531,000 (2005: HK$28,076,000). 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.

The Directors present their annual report and the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal associates and subsidiaries are set out in notes 17 and 38 to the financial statements respectively.

SUBSIDIARIES AND ASSOCIATES

Details of the Group's associates and of the Company's subsidiaries at 31 March 2006 are set out in notes 17 and 38 to the financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover during the year attributable to the Group's five largest customers accounted for 84.1% of the Group's turnover, of which 56.1% was attributable to the largest customer.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 92.9% of the Group's total purchases, of which 67.2% was attributable to the largest supplier.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 30.

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2006.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 91 and 92.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$468,000 on the acquisitions of vehicles, furniture and equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements during the year in the share capital and details of warrants and the share option scheme of the Company are set out in notes 28, 29 and 30 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company has no reserves available for distribution to shareholders.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Cheung Wai Tung *(Chairman)*
Mr. Chu Bong Foo *(Vice-Chairman)*
Mr. Cheung Kam Shing, Terry *(Managing Director)* (resigned on 28 December 2005)
Mr. Henry Chang Manayan
Mr. Wan Xiaolin

Independent Non-Executive Directors:

Mr. Lai Man To
Mr. Wang Tiao Chun
Mr. Joseph Lee Chennault

In accordance with Clauses 110(A) and 190(v) of the Company's Bye-Laws, Messrs. Cheung Wai Tung and Lai Man To will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received the annual confirmation of independence from each of the Independent Non-Executive Directors as required under Rule 3.13 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considered all Independent Non-Executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheung Wai Tung, aged 48, was appointed as the Chairman and Executive Director of the Company in December 1998 and is responsible for the corporate strategic planning and business development of the Group. Mr. Cheung holds a Bachelor of Arts degree in Accounts and Finance from Shanghai Maritime College, Shanghai, the PRC. Prior to joining the Group, he was representative and deputy chief executive officer of COSCO Group in Singapore and Hong Kong respectively.

Mr. Chu Bong Foo, aged 68, was appointed as Vice-Chairman and Executive Director of the Company in May 1999 and is responsible for the design and development of Chinese information infrastructure of the Group. Mr. Chu is the inventor of Changjie Index System and has been engaging in the development of Chinese character generating technology over 20 years.

Mr. Henry Chang Manayan, aged 50, was appointed as Executive Director of the Company in September 1999. He was the Mayor of Milpitas, California, the USA and is the first Mayor of Asian ancestry ever elected in the City of Milpitas. He is also an attorney and business owner of a management consultancy firm. He was educated at Syracuse University, Oxford University (Great Britain), Yale-in-China College, Golden Gate University Graduate College of Banking and Finance and the University of Santa Clara School of Law, where he received his Juris Doctor. Mr. Manayan is the president and general counsel of Transpacific Capital Corporation, a finance and investment company. He also served as a board director, officer and legal counsel to several companies and organisation.

Mr. Wan Xiaolin, aged 48, joined the Group as General Manager in January 2000 and is responsible for the group administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. Prior to joining the Group, he was general manager of China Merchants Transportation Group for finance and accounting division. Mr. Wan was appointed as Executive Director of the Company in July 2002.

Independent Non-Executive Directors

Mr. Lai Man To, aged 76, was appointed as an Independent Non-Executive Director of the Company in March 1999. Mr. Lai is a mechanical engineering specialist and has over 30 years of experience in finance and securities industry. Before his retirement in 1998, he has held various senior positions including senior manager of Sun Hung Kai Securities and chief executive officer of Cheerful (Holdings) Limited.

Mr. Wang Tiao Chun, aged 50, was appointed as an Independent Non-Executive Director of the Company in August 1999. Mr. Wang is currently holding various senior management positions in various companies in Taiwan.

Independent Non-Executive Directors (Continued)

Mr. Joseph Lee Chennault, aged 62, was appointed as an Independent Non-Executive Director of the Company in September 2004. Mr. Chennault holds a Bachelor of Arts in Economics from University of San Francisco and MBA from Golden Gate University. He is a member of California Society of Certified Public Accountants and has over 30 years of experience in accounting and auditing.

Senior Management

Dr. Chen Tzyh Trong, aged 48, joined the Company as Vice President and Executive Assistant to Chairman in May 2003. Dr. Chen graduated from the National Taiwan University with LL.B degree and earned his Ph.D. degree in Law from the University of London. He is well experienced in the fields of legal affairs, market development, and corporate management, with previous senior executive appointments in various companies. Dr. Chen is a respected commentator and writer for national economic and legal affairs. Dr. Chen had served as Secretary General for the Association of Taiwan Business Association in Hong Kong and Director for the Association of Chinese Traders and he is currently a counselor for Taipei City Government.

Mr. Lai Hoi Fai, aged 51, joined the Group as Vice President, Business Strategy and Development in March 2003. Mr. Lai is a Telecom and IT business development professional, with the bulk of his over 20 years of professional experience gained from leading multinational corporations including Digital Equipment Corporation, National Semiconductor, Mitel, and Sonera where he had served as senior regional executive for the Asia Pacific market. He holds a Bachelor degree in Electrical Engineering from McGill University (Canada) and MBA from the University of Hong Kong.

Mr. Chen Man Lung, aged 40, joined the Group as a Vice President in December 1998 and is responsible for publishing business and corporate development of the Group. Mr. Chen graduated with an Honour Diploma in sociology from Hong Kong Baptist College in 1989 and a Master degree of arts in Chinese studies from The Hong Kong University of Science and Technology in 1994. Mr. Chen has worked as an economist in a consultant firm and a bank and has over 8 years of experience in investment industry.

Mr. Tang U Fai, aged 33, joined the Group as Technical Officer in May 2001 and is responsible for the design and development of V-Dragon CPU and COL-eTown project. Mr. Tang is one of Mr. Chu Bong Foo's dedicated disciples.

Mr. Lee Kin Chung, Michael, aged 51, joined the Group as Vice President in June 1999 and is responsible for development and marketing of the Group's publishing business. Mr. Lee has over 20 years of experience in publication field and had involved in publication operation of various newspaper and magazine in Hong Kong.

Mr. Cheung Wai Keung, Cecil, aged 38, joined the Group in December 1998. He is the Group's Financial Controller and Company Secretary. He is a fellow member of the Chartered Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Wong Shu Pui, aged 39, joined the Group as General Counsel in November 2000 and is responsible for all the legal matters of the Group.

SHARE OPTION SCHEMES

The Company has terminated its share option scheme adopted on 15 June 1993 (the "1993 Scheme") and adopted a new share option scheme (the "2002 Scheme") on its 2002 Annual General Meeting held on 21 August 2002.

Subsequent to the termination of the 1993 Scheme, no further share options can be granted thereunder but in all other respects, the provisions of the 1993 Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith. The number of shares available for issue under the 1993 Scheme and 2002 Scheme as at the date of the Annual Report is 36,730,000 and 701,900,000 respectively, totalling 738,630,000 shares which in aggregate representing approximately 19.78% of the issued share capital of the Company as of that date.

Particulars of the Company's share option schemes are set out in note 30 to the financial statements.

Details of the movement of the share options granted to the Directors and employees of the Company under the 1993 Scheme during the year are as follows:

			Number of share options					
		Date of Grant	At 1 April 2005	Granted/ Exercised/ Cancelled during the year	Lapsed during the year	At 31 March 2006	Exercise price per share	Exercisable Period
							HK$	
(a)	**Directors**							
	Mr. Cheung Wai Tung	3 March 2000	4,565,000	–	–	4,565,000	1.680	3 March 2000 to 2 March 2010
	Mr. Chu Bong Foo	(i) 27 August 1999	10,000,000	–	–	10,000,000	0.264	27 August 1999 to 26 August 2009
		(ii) 3 March 2000	2,000,000	–	–	2,000,000	1.680	3 March 2000 to 2 March 2010
	Mr. Cheung Kam Shing, Terry	3 March 2000	3,000,000	–	(3,000,000) *(note)*	–	1.680	3 March 2000 to 2 March 2010
	Mr. Henry Chang Manayan	(i) 27 August 1999	1,000,000	–	–	1,000,000	0.264	27 August 1999 to 26 August 2009
		(ii) 3 March 2000	500,000	–	–	500,000	1.680	3 March 2000 to 2 March 2010
	Mr. Wan Xiaolin	3 March 2000	1,000,000	–	–	1,000,000	1.680	3 March 2000 to 2 March 2010
(b)	**Employees**	3 March 2000	25,035,000	–	–	25,035,000	1.680	3 March 2000 to 2 March 2010

Note: The outstanding share options granted to Mr. Cheung Kam Shing, Terry lapsed upon his resignation as Managing Director of the Company on 28 December 2005.

SHARE OPTION SCHEMES (Continued)

Details of the movement of the share options granted under the 2002 Scheme during the year are as follows:

			Number of share options							Price of the Company's shares (note 1)	
		Date of Grant	At 1 April 2005	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	At 31 March 2006	Exercise price per share	Exercisable Period	At immediately preceding the grant date of share options	At immediately preceding the exercise dat of share options
								HK$		HK$	HK$
(a)	**Directors**										
	Mr. Cheung Wai Tung	19 December 2003	4,000,000	–	–	–	4,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	Mr. Cheung Kam Shing, Terry	19 December 2003	3,000,000	–	–	(3,000,000) *(note 2)*	–	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	Mr. Henry Chang Manayan	19 December 2003	1,000,000	–	–	–	1,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	Mr. Wan Xiaolin	19 December 2003	3,000,000	–	–	–	3,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
(b)	**Employees** (i)	19 December 2003	37,700,000	–	–	–	37,700,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	(ii)	24 March 2005	71,000,000	–	–	–	71,000,000	0.295	24 March 2005 to 23 March 2015	N/A	N/A
(c)	**Others** (i)	19 December 2003	20,000,000	–	–	–	20,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	(ii)	24 March 2005	227,000,000	–	(25,000,000)	–	202,000,000	0.295	24 March 2005 to 23 March 2015	N/A	0.33
	(iii)	3 October 2005	–	30,000,000	–	–	30,000,000	0.212	3 October 2005 to 2 October 2015	0.22	N/A

The fair value of the share options granted during the year is set out in note 30 to the financial statements.

Notes:

1. The price of the Company's share disclosed as at immediately preceding the date of the grant of the share options is The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's share disclosed as at immediately preceding the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their respective exercise dates within the disclosure line.

2. The outstanding share options granted to Mr. Cheung Kam Shing, Terry lapsed upon his resignation as Managing Director of the Company on 28 December 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option holdings disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors

As at 31 March 2006, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Interests in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	220,180,000	9.19%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 *(note)*	
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000	0.05%
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000	0.01%

Note: 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

All interests stated above represent long positions.

DISCLOSURE OF INTERESTS (Continued)

Interests in share options of the Company

Name of Director		Capacity	Nature of interests	Number of share options	Exercise price per share	Exercisable period	Approximate percentage of issued share capital
					HK$		
Mr. Cheung Wai Tung	(i)	Beneficial owner	Personal interest	4,565,000 *(note 1)*	1.680	3 March 2000 to 2 March 2010	0.23%
	(ii)	Beneficial owner	Personal interest	4,000,000 *(note 1)*	0.265	19 December 2003 to 18 December 2013	
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest	10,000,000 *(note 2)*	0.264	27 August 1999 to 26 August 2009	0.32%
	(ii)	Beneficial owner	Personal interest	2,000,000 *(note 2)*	1.680	3 March 2000 to 2 March 2010	
Mr. Henry Chang Manayan	(i)	Beneficial owner	Personal interest	1,000,000 *(note 3)*	0.264	27 August 1999 to 26 August 2009	0.07%
	(ii)	Beneficial owner	Personal interest	500,000 *(note 3)*	1.680	3 March 2000 to 2 March 2010	
	(iii)	Beneficial owner	Personal interest	1,000,000 *(note 3)*	0.265	19 December 2003 to 18 December 2013	
Mr. Wan Xiaolin	(i)	Beneficial owner	Personal interest	1,000,000 *(note 4)*	1.680	3 March 2000 to 2 March 2010	0.11%
	(ii)	Beneficial owner	Personal interest	3,000,000 *(note 4)*	0.265	19 December 2003 to 18 December 2013	

DISCLOSURE OF INTERESTS (Continued)

Notes:

1. Pursuant to the 1993 Scheme, Mr. Cheung Wai Tung was granted share options by the Company on 3 March 2000 to subscribe for 4,565,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. On 19 December 2003, Mr. Cheung was further granted share options by the Company to subscribe for 4,000,000 shares at the exercise price of HK$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.

2. Pursuant to the 1993 Scheme, Mr. Chu Bong Foo was granted share options by the Company (i) on 27 August 1999 to subscribe for 10,000,000 shares at the exercise price of HK$0.264 per share for the exercisable period from 27 August 1999 to 26 August 2009; and (ii) on 3 March 2000 to subscribe for 2,000,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010.

3. Pursuant to the 1993 Scheme, Mr. Henry Chang Manayan was granted share options by the Company (i) on 27 August 1999 to subscribe for 3,000,000 shares at the exercise price of HK$0.264 per share for the exercisable period from 27 August 1999 to 26 August 2009; and (ii) on 3 March 2000 to subscribe for 500,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. Mr. Henry Chang Manayan exercised his share options to subscribe for 1,000,000 shares at the exercise price of HK$0.264 on 18 February 2000. On 19 December 2003, he was further granted share options by the Company to subscribe for 1,000,000 shares at the exercise price of HK$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme. Mr. Henry Cheng Manayan then exercised his share options to subscribe for 1,000,000 shares at the exercise price of HK$0.264 on 6 April 2004.

4. Pursuant to the 1993 Scheme, Mr. Wan Xiaolin was granted share options by the Company on 3 March 2000 to subscribe for 1,000,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. On 19 December 2003, Mr. Wan was further granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.

All interests stated above represent long positions.

DISCLOSURE OF INTERESTS (Continued)

Save as disclosed above, as at 31 March 2006, none of the Directors nor chief executive of the Company had interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(b) Interests of Substantial Shareholder

As at 31 March 2006, so far as is known to any Director or chief executive of the Company, the following person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO:

Interests in the shares of the Company

Name		Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest	220,180,000	9.19%
	(ii)	Interest of a controlled corporation	Corporate interest	122,872,000 *(note)*	

Note: 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

All interests stated above represent long positions.

DISCLOSURE OF INTERESTS (CONTINUED)

Interests in share options of the Company

Name of Director	Capacity	Nature of interest	Number of share options	Approximate percentage of issued share capital
Mr. Chu Bong Foo	Beneficial owner	Personal interest	12,000,000	0.32%

The interest stated above represents long position.

Save as disclosed above, as at 31 March 2006, the Directors and the chief executive of the Company were not aware of any person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors nor their respective associates had any business which competed or was likely to compete, either directly or indirectly, with the business of the Group at the end of the year or at any time during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 year ended 31 March 2006.

AUDIT COMMITTEE

The Audit Committee, with written terms of reference in line with the code provisions set out in the Code on Corporate Governance Practices (the "Code") as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, currently comprises three independent non-executive Directors, namely Mr. Lai Man To, Mr. Wang Tiao Chun and Mr. Joseph Lee Chennault. The Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2006 except for the following deviations:

Code Provision A.2.1

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. The Company does not at present have any officer with the title of "CEO" but instead the duties of a CEO are performed by Mr. Cheung Wai Tung, the Chairman of the Company in the same capacity as the CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies.

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors of the Company are not appointed for a specific term. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the year ended 31 March 2006.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event is set out in note 39 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheung Wai Tung
Chairman

Hong Kong, 24 July 2006

INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code as set out in Appendix 14 to the Listing Rules. During the year, the Company has complied with the Code except code provisions A.2.1 and A.4.1.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the year ended 31 March 2006.

BOARD OF DIRECTORS

Currently the Board of Directors comprises the executive Chairman, the executive Vice-Chairman, two Executive Directors and three Independent Non-Executive Directors. The Board of Directors is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board of Directors meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board of Directors has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of Directors at the board meetings held during the year is as follows:

Directors	**Attendance/Number of Meetings**
Executive Directors	
Mr. Cheung Wai Tung *(Chairman)*	15/15
Mr. Chu Bong Foo *(Vice-Chairman)*	9/15
Mr. Wan Xiaolin	15/15
Mr. Henry Chang Manayan	5/15
Mr. Cheung Kam Shing, Terry *(Managing Director)* *(resigned on 28 December 2005)*	11/12
Independent Non-Executive Directors	
Mr. Lai Man To	11/15
Mr. Wang Tiao Chun	6/15
Mr. Joseph Lee Chennault	9/15

The Company has received the annual confirmation of independence from each of the Independent Non-Executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all Independent Non-Executive Directors to be independent.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference are aligned with the code provisions set out in the Code.

The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee consists of three Independent Non-Executive Directors. The Audit Committee is chaired by Mr. Lai Man To.

During the year, the Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

During the year, the members and attendance of the meetings of the Audit Committee are as follows:

Directors	**Attendance/Number of Meetings**
Mr. Lai Man To	2/2
Mr. Wang Tiao Chun	2/2
Mr. Joseph Lee Chennault	1/2

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. The Company does not at present have any officer with the title of "CEO" but instead the duties of a CEO are performed by Mr. Cheung Wai Tung, the Chairman of the Company in the same capacity as the CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies.

TERMS OF NON-EXECUTIVE DIRECTORS

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current Independent Non-Executive Directors of the Company are not appointed for a specific term. However, all Directors (including Executive and Non-Executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

REMUNERATION COMMITTEE

The Remuneration Committee of the Group has been established in November 2005 with written terms of reference in line with the Code. The Remuneration Committee will meet as and when necessary or as requested by any Committee member to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive Directors and senior management. The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation.

The Remuneration Committee comprises two Independent Non-Executive Directors and one Executive Director. The Remuneration Committee is chaired by Mr. Lai Man To.

During the year, the Remuneration Committee held one meeting to review the remuneration policy of the Company. The members and attendance of the meeting are as follows:

Directors	**Attendance/Number of Meeting**
Mr. Lai Man To	1/1
Mr. Wan Xiaolin	1/1
Mr. Wang Tiao Chun	1/1

Details of emoluments of the Directors from the Group for the year are as disclosed in note 10(a) to the financial statements.

NOMINATION OF DIRECTORS

According to the Bye-Laws of the Company, the Board of Directors has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board of Directors. The nomination should be taken into consideration of the nominee's qualification, ability and potential contributions to the Company. During the year, the Board of Directors considered that there was no immediate need to fill the casual vacancy left upon the resignation of a Executive Director.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 March 2006, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Responsibilities and Remuneration

During the year, the audit fee for the Group amounted to approximately HK$900,000.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Report of the Auditors on page 29.

Internal Control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control which includes financial, operational and compliance controls and risk management functions for safeguarding the interests of the shareholders of the Company.

Deloitte.
德勤

TO THE SHAREHOLDERS OF CULTURECOM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Culturecom Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 30 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 24 July 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Turnover	6	**46,221**	51,354
Cost of sales		**(32,018)**	(37,204)
Gross profit		**14,203**	14,150
Other income		**4,037**	2,887
Administrative expenses		**(87,249)**	(81,713)
Amortisation of development costs		**(17,105)**	(23,818)
Research and development expenditure		**(4,362)**	(8,819)
Allowances for trade and other debtors		**(6,842)**	(8,166)
Net unrealised loss on other investments		**–**	(42,324)
Decrease in fair value of held-for-trading investments		**(404)**	–
Share of results of associates		**(8,240)**	(10,034)
Share of result of a jointly controlled entity		**(740)**	(1,526)
Gain on disposal of subsidiaries	33	**290**	–
Increase in fair value of investment properties	15	**2,736**	–
Finance costs	8	**(3,893)**	(9)
Write back of impairment loss previously recognised in respect of prepaid lease payments and property, plant and equipment		**–**	23,000
Allowances for amounts due from associates		**(33,704)**	(5,591)
Allowance for amount due from a jointly controlled entity		**(2,234)**	–
Impairment loss recognised in respect of development costs	16	**(15,850)**	(6,700)
Impairment loss recognised in respect of goodwill in reserve		**–**	(10,777)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	18	**–**	(3,491)
Loss before taxation	9	**(159,357)**	(162,931)
Taxation	11	**–**	–
Loss for the year attributable to equity holders of the Company		**(159,357)**	(162,931)
Loss per share – basic	12	**HK(4.34) cents**	HK(4.84) cents

Consolidated Balance Sheet

At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	13	**31,305**	36,275
Prepaid lease payments	14	**25,059**	25,394
Investment properties	15	**57,836**	56,015
Development costs	16	**–**	32,955
Interests in associates	17	**3,931**	12,171
Interest in a jointly controlled entity	18	**–**	740
Amounts due from associates	23	**21,739**	–
Intangible asset – club memberships	22	**1,385**	–
Investments in securities	19	**–**	1,385
		141,255	164,935
Current assets			
Inventories	20	**143**	3,595
Trade debtors	21	**6,568**	9,152
Prepaid lease payments	14	**335**	335
Other debtors, deposits and prepayments	23	**10,227**	23,151
Amounts due from fellow subsidiaries of an associate		**–**	7,640
Amount due from a jointly controlled entity	23	**–**	1,540
Amounts due from associates	23	**30,898**	75,796
Taxation recoverable		**96**	62
Held-for-trading investments	24	**24,552**	–
Investments in securities	19	**–**	23,036
Bank balances and deposits with other financial institutions	23	**19,536**	15,194
		92,355	159,501
Current liabilities			
Trade creditors	25	**7,363**	9,645
Other creditors and accrued charges	23	**11,912**	14,163
Amounts due to fellow subsidiaries of an associate	23	**33**	467
Obligations under finance leases – amount due within one year	26	**48**	34
		19,356	24,309
Net current assets		**72,999**	135,192
		214,254	300,127

Consolidated Balance Sheet

At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Capital and reserves			
Share capital	28	**373,398**	346,160
Reserves		**(162,586)**	(49,388)
		210,812	296,772
Non-current liabilities			
Obligations under finance leases – amount due after one year	26	**103**	16
Deferred tax liabilities	31	**3,339**	3,339
		3,442	3,355
		214,254	300,127

The consolidated financial statements on pages 30 to 90 were approved and authorised for issue by the Board of Directors on 24 July 2006 and are signed on its behalf by:

Cheung Wai Tung
Director

Wan Xiaolin
Director

Consolidated Statement of Changes In Equity

For the year ended 31 March 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Contribution surplus HK$'000	Goodwill reserve HK$'000	Investment property revaluation reserve HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	332,352	676,178	171,671	(56,948)	–	19,208	446	(137)	–	(752,034)	390,736
Exchange differences on translation of overseas operations not recognised in the income statement	–	–	–	–	–	–	–	7	–	–	7
Surplus on revaluation	–	–	–	–	30,990	–	–	–	–	–	30,990
Deferred tax liability arising on revaluation of investment properties	–	–	–	–	(3,339)	–	–	–	–	–	(3,339)
Net income recognised directly in equity	–	–	–	–	27,651	–	–	7	–	–	27,658
Loss for the year	–	–	–	–	–	–	–	–	–	(162,931)	(162,931)
Total recognised income (expenses) during the year	–	–	–	–	27,651	–	–	7	–	(162,931)	(135,273)
Exercise of warrants	7,058	4,588	–	–	–	–	–	–	–	–	11,646
Transfer from other reserve to share premium due to exercise of warrants	–	3,902	–	–	–	(3,902)	–	–	–	–	–
Exercise of share options	6,750	12,187	–	–	–	–	–	–	–	–	18,937
Share issue expenses	–	(51)	–	–	–	–	–	–	–	–	(51)
Impairment loss recognised	–	–	–	10,777	–	–	–	–	–	–	10,777
	13,808	20,626	–	10,777	–	(3,902)	–	–	–	–	41,309
At 31 March 2005	346,160	696,804	171,671	(46,171)	27,651	15,306	446	(130)	–	(914,965)	296,772
Effect of changes in accounting policies *(note 3)*	–	–	–	46,171	(27,651)	–	–	–	–	(18,520)	–
At 31 March 2005, as restated	346,160	696,804	171,671	–	–	15,306	446	(130)	–	(933,485)	296,772
Exchange differences on translation of overseas operations not recognised in the income statement and net expenses recognised directly in equity	–	–	–	–	–	–	–	(183)	–	–	(183)
Loss for the year	–	–	–	–	–	–	–	–	–	(159,357)	(159,357)
Total recognised expenses during the year	–	–	–	–	–	–	–	(183)	–	(159,357)	(159,540)
Issue of warrants	–	–	–	–	–	24,145	–	–	–	–	24,145
Exercise of warrants	24,738	16,080	–	–	–	–	–	–	–	–	40,818
Transfer from other reserve to share premium due to exercise of warrants	–	13,678	–	–	–	(13,678)	–	–	–	–	–
Exercise of share options	2,500	4,875	–	–	–	–	–	–	–	–	7,375
Share issue expenses	–	(7)	–	–	–	–		–	–	–	(7)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	1,249	–	1,249
	27,238	34,626	–	–	–	10,467	–	–	1,249	–	73,580
At 31 March 2006	373,398	731,430	171,671	–	–	25,773	446	(313)	1,249	(1,092,842)	210,812

The contribution surplus represents the difference between the nominal value of the share capital of the acquired subsidiaries and the nominal amount of the Company's share capital issued as consideration for the acquisition as at the date of the group reorganisation.

Other reserve represents the share of other reserve of an associate amounting to HK1,500,000 (2005: HK$1,500,000), and net proceeds from issue of warrants less transfer to share premium due to exercise of warrants.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	2006 HK$'000	2005 HK$'000 (restated)
OPERATING ACTIVITIES		
Loss before taxation	**(159,357)**	(162,931)
Adjustments for:		
Allowances for trade and other debtors	**6,842**	8,166
Allowances for amounts due from associates	**33,704**	5,591
Allowance for amount due from a jointly controlled entity	**2,234**	–
Amortisation of prepaid lease payments	**335**	335
Amortisation of development costs	**17,105**	23,818
Depreciation of property, plant and equipment	**6,213**	7,087
Dividend income	**(85)**	(82)
Interest expense	**3,893**	9
Interest income	**(922)**	(328)
Loss on disposal of property, plant and equipment	**60**	219
Write-down of inventories	**3,786**	14,294
Gain on disposal of held-for-trading investments	**(273)**	–
Net realised loss on investments in securities	**–**	342
Decrease in fair value of held-for-trading investments	**404**	–
Net unrealised loss on other investments	**–**	42,324
Share of results of associates	**8,240**	10,034
Share of result of a jointly controlled entity	**740**	1,526
Gain on disposal of subsidiaries	**(290)**	–
Increase in fair value of investment properties	**(2,736)**	–
Impairment loss recognised in respect of development costs	**15,850**	6,700
Impairment loss recognised in respect of goodwill in reserve	**–**	10,777
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	**–**	3,491
Write back of impairment loss previously recognised in respect of prepaid lease payments and property, plant and equipment	**–**	(23,000)
Recognition of equity-settled share-based payments	**1,249**	–
Operating cash flows before movements in working capital	**(63,008)**	(51,628)
Increase in inventories	**(334)**	(2,106)
Decrease (increase) in trade debtors	**2,374**	(1,339)
Decrease in other debtors, deposits and prepayments	**11,994**	5,752
Decrease in amounts due from fellow subsidiaries of an associate	**1,938**	28
(Decrease) increase in trade creditors	**(2,282)**	4,163
Decrease in other creditors and accrued charges	**(1,963)**	(3,181)
Decrease in amounts due to fellow subsidiaries of an associate	**(434)**	(21)
Increase in held-for-trading investments	**(1,647)**	–
Dividend received from held-for-trading investments	**85**	–

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
NET CASH USED IN OPERATIONS		**(53,277)**	(48,332)
Interest received		**922**	328
Hong Kong Profits Tax paid		**(34)**	(62)
NET CASH USED IN OPERATING ACTIVITIES		**(52,389)**	(48,066)
INVESTING ACTIVITIES			
Advances to associates		**(10,545)**	(17,318)
Advance to a jointly controlled entity		**(694)**	(1,458)
Purchase of property, plant and equipment		**(310)**	(1,164)
Proceeds from disposal of property, plant and equipment		**52**	5
Proceeds from disposal of subsidiaries	33	**30**	–
Additions to development costs		**–**	(17,438)
Purchase of investments in securities		**–**	(2,331)
Proceeds from disposals of investments in securities		**–**	2,577
Dividend received from investments in securities		**–**	82
NET CASH USED IN INVESTING ACTIVITIES		**(11,467)**	(37,045)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**48,193**	30,583
Net proceeds from issue of warrants		**24,145**	–
Interest paid		**(3,893)**	(9)
Repayment of obligations under finance leases		**(57)**	(34)
Share issue expenses		**(7)**	(51)
NET CASH FROM FINANCING ACTIVITIES		**68,381**	30,489
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**4,525**	(54,622)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**15,194**	69,809
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(183)**	7
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**19,536**	15,194
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and deposits with other financial institutions		**19,536**	15,194

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed on page 2 to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in publishing, Chinese information infrastructure and investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the New HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the New HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations". The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 April 2005. Goodwill previously recognised in reserves amounting to HK$46,171,000 has been transferred to the Group's accumulated losses on 1 April 2005. Comparative figures for 2005 have not been restated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted prior to 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 or vested before 1 April 2005.

The effect of the changes in the accounting policy has resulted in the increase of the loss for the current year being the recognition of share-based payments for the current year, and a corresponding increase to share option reserve (see note 3 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the Group to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Up to 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments". "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1 April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" is measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group classified and measured its equity and debt securities in accordance with the requirements of HKAS 39. The Group has reclassified its club memberships which were previously grouped under investment securities to "Intangible asset – club memberships" amounting to HK$1,385,000 on 1 April 2005. The other investments as reported on 31 March 2005 amounting to HK$23,036,000 were reclassified to held-for-trading investments on 1 April 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans receivables". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of leasehold land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The amount held in investment property revaluation reserve at 1 April 2005 has been transferred to the Group's accumulated losses (see note 3 for the financial impact).

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC)-Interpretation 21 "Income taxes – recovery of revalued non-depreciable assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC)-Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2005 have been restated (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 on the results for the current year and prior year are as follows:

	2006	2005
	HK$'000	HK$'000
Decrease in depreciation of property, plant and equipment (included in administrative expenses)	**(335)**	(335)
Amortisation of prepaid lease payments (included in administrative expenses)	**335**	335
Increase in fair value of investment properties	**(2,736)**	–
Equity-settled share-based expenses	**1,249**	–
Decrease in loss for the year	**(1,487)**	–

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The cumulative effect of the application of the New HKFRSs on the balance sheet as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 Originally stated	Retrospective adjustments	As at 31 March 2005 Restated	Prospective adjustments	As at 1 April 2005 Restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items					
ASSETS AND LIABILITIES					
Impact on HKAS 17					
Property, plant and equipment	62,004	(25,729)	36,275	–	36,275
Prepaid lease payments	–	25,729	25,729	–	25,729
Impact on HKAS 39					
Investments in securities	24,421	–	24,421	(24,421)	–
Intangible asset – club memberships	–	–	–	1,385	1,385
Held-for-trading investments	–	–	–	23,036	23,036
Impact of HK(SIC)-INT 21					
Deferred tax liabilities	–	3,339	3,339	–	3,339
RESERVES					
Impact of HKFRS 3					
Goodwill reserve	(46,171)	–	(46,171)	46,171	–
Impact of HKAS 40					
Investment property revaluation reserve	30,990	(3,339)	27,651	(27,651)	–
Impact of HKAS 40, HKFRS 3 and HK(SIC)-INT 21					
Accumulated losses	(914,965)	–	(914,965)	(18,520)	(933,485)

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the following new standards, interpretations and amendments that have been issued (the "2007 New Standards").

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

1 Effective for accounting periods beginning on or after 1 January 2007.

2 Effective for accounting periods beginning on or after 1 January 2006.

3 Effective for accounting periods beginning on or after 1 December 2005.

4 Effective for accounting periods beginning on or after 1 March 2006.

5 Effective for accounting periods beginning on or after 1 May 2006.

6 Effective for accounting periods beginning on or after 1 June 2006.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The Group has commenced considering the potential impact of the 2007 New Standards, and determined that except for HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts", the management anticipates the application of the 2007 New Standards will have no material impact on the Group's financial statements.

HKAS 39 and HKFRS 4 (Amendments) requires financial guarantee contract which is within the scope of HKAS 39 to be measured at fair value on initial recognition. The management is looking for the experts to assess the fair value of the financial guarantee contract and determined that it is not yet in a position to reasonably ascertain how the amendment may affect the results of operations and financial position of the Group are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combinations. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale which are recognised and measured at fair value less costs to sell.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries, associates and jointly controlled entity acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries, associates and jointly controlled entity to bring their accounting policies into line with those used by other members of the Group.

For associates with a financial year date of 31 December, adjustments have been made for the effect of transactions occurring between 1 January to 31 March.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interests in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration receive or receivable.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and taking into account their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Intangible assets

Club memberships

On initial recognition, these indefinite life intangible assets acquired are initially measured at cost. After initial recognition these indefinite life intangible assets are recognised at cost less accumulated impairment (if any). These intangible assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if all of the following conditions are met:

– an asset is created that can be identified;

– it is probable that the asset created will generate future economic benefits; and

– the development cost of the asset can be measured reliably.

The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the leases or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average cost method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs – defined contribution plans

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits scheme are charged as expenses as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into two categories, including financial assets at fair value through profit or loss and loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade debtors, other debtors, deposits, amounts due from associates and bank balances and deposits with other financial institutions) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade creditors, other creditors and accrued charges and amounts due to fellow subsidiaries of an associate are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Equity-settled share-based payment transactions

Share options granted to employee of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless the fair values of the goods or services received could not be estimated reliably. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent to the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade debtors, other debtors, deposits, amounts due from related parties, bank balances and deposits with other financial institutions, trade creditors, other creditors and accrued charges and amounts due to fellow subsidiaries of an associate. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The Group's bank balances and deposits with other financial institutions are deposited with banks and financial institutions of high credit rating and the Group has limited exposure to any single financial institution.

Except for the amounts due from associates, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to price risk on equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. TURNOVER

Turnover represents the amount received and receivable for goods sold by the Group, less returns and allowances and rental income and is analysed as follows:

	2006	2005
	HK$'000	HK$'000
		(restated)
Sales of goods	**42,143**	47,247
Rental income	**4,078**	4,107
	46,221	51,354

The directors consider that revenue arising from rental income of investment properties, which contributes nearly 10% to the Group's total revenue, should be included in turnover to provide a more meaningful analysis of the Group's revenue and principal activities. Accordingly, the comparative figures have been restated to conform with the current year's presentation.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely publishing, Chinese information infrastructure and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Publishing	–	publishing of comics and related business
Chinese information infrastructure	–	sales of Chinese operating system, processor, eTextbook and application software
Investment	–	rental income from investment properties

Segment information about these businesses is presented below:

Income statement for the year ended 31 March 2006

	Publishing HK$'000	Chinese information infrastructure HK$'000	Investment HK$'000	Consolidated HK$'000
Turnover	41,731	412	4,078	46,221
Segment results	5,192	(73,026)	6,612	(61,222)
Unallocated expenses				(49,614)
Share of results of associates				(8,240)
Share of result of a jointly controlled entity				(740)
Finance costs				(3,893)
Gain on disposal of subsidiaries				290
Allowances for amounts due from associates				(33,704)
Allowance for amount due from a jointly controlled entity				(2,234)
Loss before taxation				(159,357)
Taxation				–
Loss for the year				(159,357)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

Balance sheet at 31 March 2006

	Publishing HK$'000	Chinese information infrastructure HK$'000	Investment HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	19,288	21,886	58,097	99,271
Interests in associates				3,931
Unallocated corporate assets				130,408
Consolidated total assets				233,610
LIABILITIES				
Segment liabilities	9,370	5,412	646	15,428
Unallocated corporate liabilities				7,370
Consolidated total liabilities				22,798

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

Other information for the year ended 31 March 2006

	Publishing	Chinese information infrastructure	Investment	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Additions to property, plant and equipment	4	176	–	288	468
Amortisation of development costs	–	16,595	–	510	17,105
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation of property, plant and equipment	764	3,263	–	2,186	6,213
Allowances for trade and other debtors	344	283	450	5,765	6,842
Impairment loss recognised in respect of development costs	–	15,850	–	–	15,850

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

Income statement for the year ended 31 March 2005

	Publishing HK$'000	Chinese information infrastructure HK$'000	Investment HK$'000	Consolidated HK$'000 (restated)
Turnover	47,010	237	4,107	51,354
Segment results	1,291	(98,339)	3,907	(93,141)
Unallocated expenses				(72,139)
Share of results of associates				(10,034)
Share of result of a jointly controlled entity				(1,526)
Finance costs				(9)
Write back of impairment loss previously recognised in respect of prepaid lease payments and property, plant and equipment				23,000
Allowances for amounts due from associates				(5,591)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity				(3,491)
Loss before taxation				(162,931)
Taxation				–
Loss for the year				(162,931)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

Balance sheet at 31 March 2005

	Publishing HK$'000	Chinese information infrastructure HK$'000	Investment HK$'000	Consolidated HK$'000 (restated)
ASSETS				
Segment assets	21,093	73,008	56,244	150,345
Interests in associates				12,171
Interest in a jointly controlled entity				740
Unallocated corporate assets				161,180
Consolidated total assets				324,436
LIABILITIES				
Segment liabilities	14,997	3,461	646	19,104
Unallocated corporate liabilities				8,560
Consolidated total liabilities				27,664

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

Other information for the year ended 31 March 2005

	Publishing HK$'000	Chinese information infrastructure HK$'000	Investment HK$'000	Unallocated HK$'000	Consolidated HK$'000 (restated)
Additions to property, plant and equipment	17	918	–	229	1,164
Additions to development costs	–	17,916	–	–	17,916
Amortisation of development costs	–	23,564	–	254	23,818
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation of property, plant and equipment	866	3,769	–	2,930	7,565
Allowances for trade and other debtors	2,227	2,556	–	3,383	8,166
Impairment loss recognised in respect of development costs	–	6,700	–	–	6,700
Impairment loss recognised in respect of goodwill in reserve	–	–	–	10,777	10,777
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	–	–	–	3,491	3,491

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments

The Group's operations are located in Hong Kong and other regions in The People's Republic of China ("PRC").

The following table provides an analysis of the Group's turnover by location of markets, irrespective of the origin of the goods/services:

	Turnover	
	2006	2005
	HK$'000	HK$'000
		(restated)
Hong Kong	**45,959**	51,354
PRC	**262**	–
	46,221	51,354

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and development costs	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(restated)		(restated)
Hong Kong	**102,371**	158,222	**105**	18,809
PRC	**831**	5,034	**75**	42
Unallocated	**130,408**	161,180	**288**	229
	233,610	324,436	**468**	19,080

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on finance leases	**12**	9
Interest on other borrowings wholly repayable within five years	**3,881**	–
	3,893	9

9. LOSS BEFORE TAXATION

	2006 HK$'000	2005 HK$'000 (restated)
Loss before taxation has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments *(note 10)*	**5,067**	5,334
Other staff costs:		
– Retirement benefits schemes contributions	**539**	635
– Salaries and other benefits *(note)*	**23,925**	22,537
	29,531	28,506
Less: Amount capitalised in the development costs	**–**	430
	29,531	28,076
Auditors' remuneration	**900**	835
Write-down of inventories	**3,786**	14,294
Amortisation of prepaid lease payments	**335**	335
Depreciation of property, plant and equipment		
– Owned assets	**6,172**	7,540
– Assets held under finance leases	**41**	25
	6,213	7,565
Less: Amount capitalised in the development costs	**–**	478
	6,213	7,087
Cost of inventories recognised as expenses	**31,816**	37,004
Loss on disposal of property, plant and equipment	**60**	219
Operating lease rentals in respect of rented premises	**1,763**	1,533
Gain on disposal of held-for-trading investments	**(273)**	–
Net realised loss on investments in securities	**–**	342
Property rental income under operating leases, net of direct outgoings of HK$202,000 (2005: HK$200,000)	**(3,876)**	(3,907)
Interest income	**(922)**	(328)
Dividend income	**(85)**	(82)

Note: Amount included salaries of HK$1,060,000 (2005: HK$5,122,000) paid to employees engaged in research and development activities. The amount was classified as research and development expenditure in the income statement.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of eight (2005: nine) directors were as follows:

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
Cheung Wai Tung	120	1,050	12	1,182
Chu Bong Foo	120	990	–	1,110
Cheung Kam Shing, Terry	90	828	9	927
Henry Chang Manayan	120	120	–	240
Wan Xiaolin	–	716	12	728
Lai Man To	120	120	–	240
Wang Tiao Chun	400	–	–	400
Joseph Lee Chennault	120	120	–	240
Total for 2006	1,090	3,944	33	5,067

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
Cheung Wai Tung	120	1,050	12	1,182
Chu Bong Foo	120	1,025	–	1,145
Cheung Kam Shing, Terry	120	1,096	12	1,228
Henry Chang Manayan	120	120	–	240
Wan Xiaolin	–	687	12	699
Lai Man To	120	120	–	240
Wang Tiao Chun	480	–	–	480
Joseph Lee Chennault	120	–	–	120
Juliet Wu	–	–	–	–
Total for 2005	1,200	4,098	36	5,334

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (continued)

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office.

There was no arrangement under which a director had waived or agreed to waive any remuneration in both years.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosure in note 10(a) above. The details of the remaining two (2005: two) highest paid individuals were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**2,156**	2,297
Retirement benefits scheme contributions	**24**	24
	2,180	2,321

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

11. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit in both years. The Group also had no assessable profits in other jurisdiction in both years.

Details of the deferred taxation are set out in note 31.

The taxation for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	HK$'000
		(restated)
Loss before taxation	**(159,357)**	(162,931)
Taxation at the Hong Kong Profits Tax rate of 17.5%	**(27,887)**	(28,513)
Tax effect of income not taxable for tax purpose	**(718)**	(4,082)
Tax effect of temporary differences not recognised	**18,095**	18,815
Tax effect of expenses not deductible for tax purpose	**10,510**	13,780
Taxation for the year	**–**	–

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the loss for the year of HK$159,357,000 (2005: HK$162,931,000) and the weighted average number of 3,670,446,000 (2005: 3,366,259,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for both years because the exercise of the Company's outstanding share options and warrants would reduce loss per share.

The following table summarises the impact on basic loss per share for the year as a result of application of New HKFRSs:

	Impact on basic loss per share	
	2006	2005
	HK cents	HK cents
Figures before adjustments	**4.38**	4.84
Adjustments arising from changes in accounting policies *(see note 3)*	**(0.04)**	–
	4.34	4.84

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Vehicles, furniture and equipment HK$'000	Total HK$'000
COST					
At 1 April 2004					
As originally stated	128,400	32,106	15,289	62,390	238,185
Adoption of HKAS 17	(64,200)	–	–	–	(64,200)
As restated	64,200	32,106	15,289	62,390	173,985
Additions	–	228	–	936	1,164
Transfer to investment properties *(note 15)*	(34,380)	–	–	–	(34,380)
Disposals	–	–	(839)	(15,353)	(16,192)
At 31 March 2005	29,820	32,334	14,450	47,973	124,577
Additions	–	–	–	468	468
Transfer from investment properties *(note 15)*	915	–	–	–	915
Disposal of subsidiaries	–	–	–	(125)	(125)
Disposals	–	(132)	–	(1,749)	(1,881)
At 31 March 2006	30,735	32,202	14,450	46,567	123,954
DEPRECIATION AND IMPAIRMENT					
At 1 April 2004					
As originally stated	81,670	28,077	12,679	44,770	167,196
Adoption of HKAS 17	(32,844)	–	–	–	(32,844)
As restated	48,826	28,077	12,679	44,770	134,352
Provided for the year	701	1,254	592	5,018	7,565
Transfer to investment properties *(note 15)*	(26,147)	–	–	–	(26,147)
Write back of impairment	(11,500)	–	–	–	(11,500)
Eliminated on disposals	–	–	(615)	(15,353)	(15,968)
At 31 March 2005	11,880	29,331	12,656	34,435	88,302
Provided for the year	701	761	587	4,164	6,213
Eliminated on disposal of subsidiaries	–	–	–	(97)	(97)
Eliminated on disposals	–	(79)	–	(1,690)	(1,769)
At 31 March 2006	12,581	30,013	13,243	36,812	92,649
CARRYING VALUES					
At 31 March 2006	18,154	2,189	1,207	9,755	31,305
At 31 March 2005	17,940	3,003	1,794	13,538	36,275

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Shorter of the lease term or 5%
Leasehold improvements	Shorter of the lease term or 10%
Plant and machinery	7% to 20%
Vehicles, furniture and equipment	15% to 20%

The buildings of the Group at 31 March 2006 are situated in Hong Kong and are held under medium-term leases.

At the balance sheet date, included in vehicles, furniture and equipment are assets held under finance leases with an aggregate net book value of HK$220,000 (2005: HK$103,000).

14. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**25,394**	25,729
Analysis for reporting purposes as:		
Non-current asset	**25,059**	25,394
Current asset	**335**	335
	25,394	25,729

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2004	–
Transfer from property, plant and equipments at carrying amounts	8,233
Transfer from prepaid lease payments at carrying amounts	16,792
Revaluation surplus recognised in equity	30,990
At 31 March 2005	56,015
Transfer to property, plant and equipment at carrying amount	(915)
Increase in fair value recognised in the income statement	2,736
At 31 March 2006	57,836

The fair value of the Group's investment properties at 31 March 2006 has been arrived at on the basis of a valuation carried out on that date by Castoves Magi (Hong Kong) Limited, independent qualified professional valuers not connected with the Group. Castoves Magi (Hong Kong) Limited is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties at 31 March 2006 are situated in Hong Kong and are held under medium-term leases.

16. DEVELOPMENT COSTS

	HK$'000
COST	
At 1 April 2004	95,045
Additions	17,916
At 31 March 2005 and 31 March 2006	112,961
AMORTISATION AND IMPAIRMENT	
At 1 April 2004	49,488
Amortised for the year	23,818
Impairment loss recognised	6,700
At 31 March 2005	80,006
Amortised for the year	17,105
Impairment loss recognised	15,850
At 31 March 2006	112,961
CARRYING VALUES	
At 31 March 2006	–
At 31 March 2005	32,955

Development costs represent expenditure incurred for the development of the Chinese information infrastructure. Such development costs are deferred and amortised over estimated useful lives range from two to five years from the date of commencement of commercial operations.

The Group tests annually or when there is an indicator whether intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 4.

In response to the rapid change of the computer technology environment and the termination of the purchase of assets and license of technology from United States, the Group assessed the recoverable amounts of its development costs as negligible and recognised an impairment loss of approximately HK$15,850,000 (2005: HK$6,700,000). The estimation of recoverable amounts as at 31 March 2005 is based on an estimation of future cash flows expected to arise from the products developed.

17. INTERESTS IN ASSOCIATES

	2006 HK$'000	2005 HK$'000
Cost of investment in associates		
Listed in Hong Kong	**38,574**	38,574
Unlisted	**18,101**	18,101
Share of post-acquisition losses, net of dividends received	**(52,744)**	(44,504)
	3,931	12,171
Fair value of listed investments	**6,000**	9,900

Particulars of the Group's principal associates as at 31 March 2006 are as follows:

Name	Form of business structure	Place of incorporation/ operation	Class of share held	Proportion of nominal value of issued share capital held by the Group	Principal activities
				%	
Chinese 2 Linux (Holdings) Limited ("C2L")	Incorporated	British Virgin Islands ("BVI")/ Hong Kong	Ordinary	41	Development of Chinese language computer operating system
GlobalRes Group Limited	Incorporated	BVI/Hong Kong	Ordinary	30	Provision of computer and telecommunications services to travel agents
Q9 Technology Holdings Limited ("Q9 Technology") *(Note)*	Incorporated	Cayman Islands/ Hong Kong	Ordinary	24	Development, packing and retailing of the Chinese language encryption software
Impact Lift Technology Limited	Incorporated	BVI/Hong Kong	Ordinary	20	Research and development, and holding of biofectiliser for vegetable production
The Universal.Com Technology Limited	Incorporated	Hong Kong	Ordinary	30	Publishing and development of electronic publication

17. INTERESTS IN ASSOCIATES (CONTINUED)

Note: The shares of Q9 Technology are listed on the Growth Enterprise Market of the Stock Exchange.

In May 2003, Winway H.K. Investments Limited ("Winway"), a wholly owned subsidiary of the Company, has placed 300,000,000 shares (the "Shares") of Q9 Technology with TKR Finance Limited ("TKR Finance") for safe custody and to facilitate management of such Shares. In June 2004, the Company was informed by Q9 Technology that it had received a copy of the disclosure of interests form filed pursuant to the Securities and Futures Ordinance by the provisional liquidator of TKR Finance claiming it had security interests in the Shares. Winway had sought legal advice and had notified the provisional liquidator about its title in the Shares and demanded the return of the Shares from TKR Finance. Currently, Winway is positively seeking a feasible resolution and negotiating with the relevant parties to reclaim the shares.

The above table lists the associates of the Group which principally affect the results of the Group or form a substantial portion of the Group's interests in associates.

The financial year end date of Q9 Technology is 31 December and is not co-terminus with that of the Group. This was the financial reporting date established when Q9 Technology was incorporated.

The summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	HK$'000
Total assets	**81,513**	156,822
Total liabilities	**(167,708)**	(141,145)
Net liabilities	**(86,195)**	15,677
Group's share of net assets of associates	**3,931**	12,171
Turnover	**347,721**	380,700
Loss for the year	**(93,409)**	(58,751)
Group's share of results of associates for the year	**(8,240)**	(10,034)

17. INTERESTS IN ASSOCIATES (CONTINUED)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2006	2005
	HK$'000	HK$'000
Unrecognised share of losses of associates for the year	**14,719**	9,560
Accumulated unrecognised share of losses of associates	**32,309**	17,590

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006	2005
	HK$'000	HK$'000
Cost of unlisted investment in a jointly controlled entity	**9,500**	9,500
Share of post-acquisition losses	**(9,500)**	(8,760)
	–	740

Included in the cost of investment in jointly controlled entities is premium of HK$4,655,000 (2005: HK$4,655,000) arising on formation of a jointly controlled entity in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
At 1 April 2004, 31 March 2005 and 31 March 2006	4,655
AMORTISATION AND IMPAIRMENT	
At 1 April 2004	776
Amortisation for the year	388
Impairment recognised for the year	3,491
At 31 March 2005 and 31 March 2006	4,655
CARRYING VALUE	
At 31 March 2005 and 31 March 2006	–

18. INTEREST IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

As at 31 March 2006, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Country of registration/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
			%	
北京人教文傳信息技術有限公司 (「北京人教」)	Sino-foreign equity joint venture	PRC	51	Sales of Chinese information infrastructure products

The Group holds 51% of the registered capital of 北京人教and controls 51% of the voting power in general meeting. However, under a shareholders' agreement, 北京人教 is jointly controlled by the Group and the other significant shareholder. Therefore, 北京人教 is classified as a jointly controlled entity of the Group.

The jointly controlled entity is indirectly held by the Company.

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2006 **HK$'000**	2005 HK$'000
Current assets	**1,257**	962
Non-current assets	**1,276**	1,998
Current liabilities	**(2,633)**	(1,510)
Group's share of net assets of jointly controlled entity	**–**	740
Income	**–**	–
Expenses	**(1,550)**	(2,992)
Group's share of loss of jointly controlled entity for the year	**(740)**	(1,526)
Unrecognised and accumulated unrecognised share of loss of jointly controlled entity	**(50)**	–

19. INVESTMENTS IN SECURITIES

Investments in securities as at 31 March 2005 are set out below. Upon application of HKAS 39 on 1 April 2005, investments in securities were reclassified to appropriate categories under HKAS 39 (see note 3 for details).

	Investment securities HK$'000	Other investments HK$'000	Total HK$'000
Non-current assets:			
Club memberships	1,385	–	1,385
Current assets:			
Listed equity securities			
– Hong Kong	–	20,791	20,791
– Overseas	–	445	445
	–	21,236	21,236
Unlisted debt securities	–	1,800	1,800
	–	23,036	23,036
	1,385	23,036	24,421
Market value of listed securities	–	21,236	21,236

20. INVENTORIES

The inventories represent finished goods which included an amount of HK$143,000 (2005: HK$578,000) carried at net realisable value at the balance sheet date.

21. TRADE DEBTORS

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
0 – 60 days	**4,976**	7,360
61 – 90 days	**228**	183
Over 90 days	**1,364**	1,609
	6,568	9,152

The directors consider that the carrying amounts of trade debtors approximate to their fair values.

22. INTANGIBLE ASSET – CLUB MEMBERSHIPS

	2006
	HK$'000
Corporate club memberships	**1,385**

Corporate club memberships are life memberships in recreational clubs. The directors of the Company are of the opinion that the Group would have the right to use the club memberships continuously and has the ability to do so.

As a result, the club memberships are considered by the management of the Group as having an indefinite useful life. The club memberships will not be amortised until their useful lives are determined to be finite. The directors of the Company determined there is no impairment of the club memberships by considering the prices quoted in the second hand market.

23. OTHER CURRENT FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Bank balances and deposits with other financial institutions are short term highly liquid investments carrying interest at an average market rate of 2% (2005: 1%) are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

The amounts due from and to related parties are unsecured, interest free and are repayable on demand.

Included in amounts due from associates of approximately HK$21,739,000 was classified as non-current assets. In the opinion of the directors, the amount is not expected to realise within twelve months after the balance sheet date. The effective interest rate of the amounts due from associates is 8%.

The directors consider that the carrying amounts of other current financial assets and other current liabilities approximate to their fair values.

24. HELD-FOR-TRADING INVESTMENTS

	2006 HK$'000
Listed equity shares, at fair value:	
Hong Kong	23,661
Overseas	891
	24,552

The fair values of above held-for-trading investments are determined based on the quoted market bid prices available on relevant exchanges.

25. TRADE CREDITORS

The following is an aged analysis of trade creditors at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
0 – 60 days	**4,229**	5,086
61 – 90 days	**1,233**	2,090
Over 90 days	**1,901**	2,469
	7,363	9,645

The directors consider that the carrying amounts of trade creditors approximate to their fair values.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**57**	43	**48**	34
In the second to fifth years inclusive	**117**	21	**103**	16
	174	64	**151**	50
Less: Future finance charges	**(23)**	(14)	**–**	–
Present value of lease obligations	**151**	50	**151**	50
Less: Amount due for settlement within one year shown under current liabilities			**(48)**	(34)
Amount due for settlement after one year shown under non-current liabilities			**103**	16

26. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

The lease term in respect of the vehicles, furniture and equipment held under the finance lease is 5 years. For the year ended 31 March 2006, the average effective borrowing rate was 8%. Interest rate is fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$158,000 (2005: nil).

28. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 April 2004	4,000,000	400,000
Increase on 24 August 2004	2,000,000	200,000
At 31 March 2005 and 31 March 2006	6,000,000	600,000
Issued and fully paid:		
At 1 April 2004	3,323,520	332,352
Exercise of share options	67,500	6,750
Exercise of warrants *(note 29)*	70,580	7,058
At 31 March 2005	3,461,600	346,160
Exercise of share options *(note)*	25,000	2,500
Exercise of warrants *(note 29)*	247,380	24,738
At 31 March 2006	3,733,980	373,398

Note: During the year, the subscription rights attaching to 25,000,000 share options were exercised at subscription prices of HK$0.295 per share, resulting in the issue of 25,000,000 shares of HK$0.10 each for a total consideration of approximately HK$7,375,000.

29. WARRANTS

2005 Warrants

On 6 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 ("2005 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 period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4 July 2003.

The net proceeds of the placing of approximately HK$23,774,000 were used for general working capital of the Group.

During the year, registered holders of 247,380,000 units (2005: 70,580,000 units) of outstanding 2005 Warrants exercised their rights to subscribe for 247,380,000 shares (2005: 70,580,000 shares) in the Company at HK$0.165 per share.

On 7 July 2005, the listing of 2005 Warrants was withdrawn. 2,320,000 units of outstanding 2005 warrants were expired.

2007 Warrants

On 18 August 2005, the Company entered into a conditional placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants ("2007 Warrants") conferring rights to subscribe up to approximately HK$113,520,000 in cash for shares of HK$0.10 each in the share capital of the Company at an initial subscription price of HK$0.172 per share during the period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of 2007 Warrants was completed on 28 September 2005.

The net proceeds of the placing of approximately HK$24,145,000 were used for general working capital of the Group.

During the year, no registered holders of 2007 Warrants exercised their rights to subscribe for shares.

On 31 March 2006, the Company had 660,000,000 units of outstanding 2007 Warrants conferring rights to subscribe up to approximately HK$113,520,000 in cash for shares of HK$0.10 each in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as of 31 March 2006, result in the issue of 660,000,000 additional shares of HK$0.10 each in the Company.

30. SHARE OPTION SCHEMES

(A) Share option scheme adopted on 15 June 1993 ("Old Option Scheme")

The major terms of the Old Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to the participants.

(ii) The participants included any employee or director of the Group.

(iii) The maximum number of shares of the Company in respect of which share options might be granted under the Old Option Scheme must not exceed 10% of the issued share capital of the Company from time to time.

(iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with the Company's shares issued and issuable under any share option granted to the same participant under the Old Option Scheme, must not exceed 25% of the maximum shares issuable under the Old Option Scheme from time to time.

(v) The exercisable period of a share option granted must not exceed a period of 10 years commencing on the date of grant.

(vi) The acceptance of a share option, if accepted, must be made within 21 days from the date of grant with a non-refundable payment of HK$10 from the grantee to the Company.

(vii) The exercise price of a share option must be the higher of:

- 80% of the average closing price of a share of the Company for the 5 trading days immediately preceding the grant; and
- the nominal value of a share of the Company.

(viii) On 21 August 2002, the shareholders of the Company resolved that the Old Option Scheme should be cancelled. However, the share options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

30. SHARE OPTION SCHEMES (CONTINUED)

(B) Share option scheme adopted on 21 August 2002 ("New Option Scheme")

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 21 August 2002, the Company adopted the New Option Scheme to replace the Old Option Scheme. All the share options granted under the Old Option Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the Old Option Scheme. The major terms of the New Option Scheme are summarised as follows:

(i) The purpose is to provide incentives to:

- award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest ("Invested Entity"); and
- recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

(ii) The participants included any employee, director, supplier, agent, consultant, adviser strategist, contractor, subcontractor, expert or customer of the Group and/or Invested Entity.

(iii) The maximum number of shares of the Company in respect of which share options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme, however this limit might be refreshed by shareholders in a general meeting. At 31 March 2005, the total number of shares of the Company available for issue under the Company's New Option Scheme was 366,700,000 shares, representing 10.59% of the issued share capital of the Company as at the date. However, the total maximum number of shares of the Company which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares of the Company in issue from time to time.

(iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding share options and the options cancelled) under any share option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares of the Company in issue from time to time.

(v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors and provided in the offer of grant of share option.

30. SHARE OPTION SCHEMES (CONTINUED)

(B) Share option scheme adopted on 21 August 2002 ("New Option Scheme") (continued)

(vi) The exercise period should be any period fixed by the board of directors upon grant of the share option but in any event the share option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of a share option must be the highest of:

- the closing price of a share of the Company on the date of grant which must be a trading day;
- the average closing price of a share of the Company for the 5 trading days immediately preceding the date of grant; and
- the nominal value of a share of the Company.

(ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 20 August 2012.

30. SHARE OPTION SCHEMES (CONTINUED)

The following table discloses details of the Company's share options granted under the Old Option Scheme and the New Option Scheme and movements in such holdings:

					Number of share options							
Category of participants	Name of scheme	Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.4.2004	Granted during 2004/05	Exercised during 2004/05	Outstanding at 31.3.2005 and 1.4.2005	Granted during 2005/06	Exercised during 2005/06 *(note)*	Lapsed during 2005/06	Outstanding at 31.3.2006
Directors	Old Option Scheme	27.8.1999	27.8.1999 – 26.8.2009	0.264	12,000,000	–	(1,000,000)	11,000,000	–	–	–	11,000,000
		3.3.2000	3.3.2000 – 2.3.2010	1.680	11,065,000	–	–	11,065,000	–	–	(3,000,000)	8,065,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	11,000,000	–	–	11,000,000	–	–	(3,000,000)	8,000,000
					34,065,000	–	(1,000,000)	33,065,000	–	–	(6,000,000)	27,065,000
Employees	Old Option Scheme	3.3.2000	3.3.2000 – 2.3.2010	1.680	25,035,000	–	–	25,035,000	–	–	–	25,035,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	48,200,000	–	(10,500,000)	37,700,000	–	–	–	37,700,000
		24.3.2005	24.3.2005 – 23.3.2015	0.295	–	71,000,000	–	71,000,000	–	–	–	71,000,000
					73,235,000	71,000,000	(10,500,000)	133,735,000	–	–	–	133,735,000
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	41,000,000	–	(21,000,000)	20,000,000	–	–	–	20,000,000
		24.3.2005	24.3.2005 – 23.3.2015	0.295	–	262,000,000	(35,000,000)	227,000,000	–	(25,000,000)	–	202,000,000
		3.10.2005	3.10.2005 – 2.10.2015	0.212	–	–	–	–	30,000,000	–	–	30,000,000
					41,000,000	262,000,000	(56,000,000)	247,000,000	30,000,000	(25,000,000)	–	252,000,000
					148,300,000	333,000,000	(67,500,000)	413,800,000	30,000,000	(25,000,000)	(6,000,000)	412,800,000

Note: The price of the Company's shares immediately preceding the dates of the exercise of the share option at the exercise price of HK$0.295 (being the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their exercise dates) was HK$0.33.

Total consideration received during the year from directors, employees and other participants for taking up the share options granted amounted to HK$1 (2005: HK$27).

30. SHARE OPTION SCHEMES (CONTINUED)

During the year, 30,000,000 options were granted on 3 October 2005. The estimated fair value of the options granted to a consultant of the Company for sales and promotion of the Chinese information infrastructure in the PRC is HK$1,249,000. As the fair value of the services provided by the consultant could not be estimated reliably, the fair value of the services is measured by the reference to the fair value of options granted at the date the services are performed.

The fair value was calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

Weighted average share price	HK$0.211
Exercise price	HK$0.212
Expected volatility	50.40%
Expected life	1 year
Risk-free rate	3.38%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$1,249,000 for the year ended 31 March 2006 in relation to share options granted by the Company.

31. DEFERRED TAX LIABILITIES

The following are the deferred tax liability and asset recognised by the Group and movements thereon during the year:

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000 (restated)	Estimated tax losses HK$'000 (restated)	Total HK$'000
At 1 April 2004	2,052	–	(2,052)	–
(Credit) charge to income statement for the year	(62)	–	62	–
Charge (credit) to equity in the year	–	5,423	(2,084)	3,339
At 31 March 2005	1,990	5,423	(4,074)	3,339
Charge (credit) to income statement for the year	173	478	(651)	–
At 31 March 2006	2,163	5,901	(4,725)	3,339

At 31 March 2006, the Group has estimated unused tax losses of HK$573,917,000 (2005: HK$466,798,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$27,000,000 (2005: HK$23,280,000) of such losses. No deferred tax asset has been recognised in respect of remaining tax losses of HK$546,917,000 (2005: HK$443,518,000) due to the unpredictability of future profit streams. The estimated tax losses may be carried forward indefinitely.

32. RETIREMENT BENEFITS SCHEMES

The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Authority for all qualifying employees of its Hong Kong group companies. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group's contributions are made in accordance with the rules of the MPF Scheme and are charged to income statement.

32. RETIREMENT BENEFITS SCHEMES (CONTINUED)

The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of their current employees to the pension scheme to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of services in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

The total cost charged to income statement of HK$572,000 (2005: HK$677,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

33. DISPOSAL OF SUBSIDIARIES

On 28 February 2006, the Group entered into an agreement to dispose of its entire interests in the subsidiaries, Culturecom Online Holdings Limited and Culturecom Online Limited which carried on investment holding business. The disposals were completed on 28 February 2006, on which date control on the above subsidiaries was passed to acquirer.

The net liabilities of the above subsidiaries at the date of disposal were as follows:

	2006 HK$'000
NET LIABILITIES DISPOSED OF	
Property, plant and equipment	28
Other creditors and accrued charges	(288)
	(260)
Gain on disposal	290
Total consideration	30
Satisfied by cash and net cash inflow arising on disposal	30

The subsidiaries disposed of during the year had no contribution to the Group's turnover and contributed approximately HK$56,000 to the Group's loss before taxation.

34. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with certain related parties:

	Rental income received from related companies		Management fee received from related companies		Other income received from related companies		Other expense paid to related companies		Disposal of subsidiaries		Amounts due from related companies	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Associates	**646**	639	**120**	120	**77**	61	**565**	1,675	**30**	–	**52,637**	75,796
Jointly controlled entity	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1,540

During the year, a loan approximately HK$29,000,000 was obtained from a director, which was interest free and fully repaid during the year.

In addition, at 31 March 2005, the Group has provided a guarantee to Transmeta Corporation in respect of the payment obligations of service fees of China Ever Limited, a wholly-owned subsidiary of C2L, the associate of the Company. The Group did not receive any fee from China Ever Limited for the guarantee provided.

Compensation of key management personnel represents directors' remuneration as set out in note 10(a). The directors' remuneration is determined by the remuneration committee having regard to the performance, responsibilities and experiences of individuals and market trends.

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 31 March 2006, the Group had commitments for future minimum lease payment in respect of rented premises which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**113**	6

Operating lease payments represent rentals payable by the Group for its office premise. Lease is negotiated for an average term of two years and rentals are fixed for an average of two years.

35. OPERATING LEASE ARRANGEMENTS (CONTINUED)

The Group as lessor

Property rental income earned during the year was HK$4,078,000 (2005: HK$4,107,000).

At 31 March 2006, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	HK$'000
Within one year	**1,612**	3,188
In the second to fifth year inclusive	**490**	519
	2,102	3,707

Lease is negotiated for an average term of two years.

36. CONTINGENT LIABILITIES

At 31 March 2005, 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. Based on the advice of its legal adviser, the directors are of the view that the Company has meritorious grounds to defence. Accordingly, no provision for this amount was provided in the financial statements for the year ended 31 March 2005. The case had been set down for trial during the year ended 31 March 2006. Pursuant to the consent order dated 26 October 2005, the plaintiff agreed to a settlement amount of HK$7,500,000 in order to avoid future legal costs, and discontinued all claims against the Company. The amount of HK$7,500,000 has been paid during the year and included in the administrative expenses.

37. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the capital expenditure on the development costs	**–**	4,708

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2006 are as follows:

Name	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
			%	
Citicomics Limited	Hong Kong	Ordinary HK$2	100	Publishing
Culturecom Centre Limited	Hong Kong	Ordinary HK$2	100	Property holding
Culturecom e-publication Limited	Hong Kong	Ordinary HK$2	100	Electronic publication
Culturecom Enterprises Limited	Hong Kong	Ordinary HK$2	100	Provision of management services to group companies
Culturecom Holdings (BVI) Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Culturecom Limited	Hong Kong	Ordinary HK$1,000	100	Investment holding and publishing
Culturecom Investments Limited	Hong Kong	Ordinary HK$2	100	Investment holding and securities trading
Culture.com Technology Limited	Hong Kong	Ordinary HK$2	100	Development of Chinese language computer processor
Culture.com Technology (BVI) Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
文傳漫畫設計(深圳)有限公司 *(Note)*	PRC	Registered HK$1,000,000	100	Comics design and production
Winway	Hong Kong	Ordinary HK$2	100	Investment holding and securities trading

Note: A wholly owned foreign enterprise for a period of ten years commencing from 6 June 2000.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Except for Culturecom Holdings (BVI) Limited, which is directly held by the Company, all the other principal subsidiaries are indirectly held by the Company.

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results or assets or liabilities of the Group.

39. POST BALANCE SHEET EVENT

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK$36 million convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK$36 million to be issued by the Company. The conversion price of Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively "Convertible Bonds") is HK$0.1 per new ordinary share of HK$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds which are expected to be approximately HK$34.8 million will be used as general working capital. Details of the placement are set out in the Company's announcement dated 21 June 2006.

The consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements are as follows:

	Year ended 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
				(restated)	
RESULTS					
Turnover	64,338	59,138	40,655	51,354	**46,221**
Loss before taxation	(197,640)	(150,937)	(72,481)	(162,931)	**(159,357)**
Taxation credit	189	141	–	–	**–**
Loss for the year	(197,451)	(150,796)	(72,481)	(162,931)	**(159,357)**
Attributable to:					
Equity holders of the Company	(195,563)	(149,362)	(72,467)	(162,931)	**(159,357)**
Minority interests	(1,888)	(1,434)	(14)	–	**–**
	(197,451)	(150,796)	(72,481)	(162,931)	**(159,357)**

Financial Summary

	As at 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000 (restated)	**HK$'000**
ASSETS AND LIABILITIES					
Property, plant and equipment	86,272	80,795	70,989	36,275	**31,305**
Prepaid lease payments – non current portion	–	–	–	25,394	**25,059**
Investment properties	–	–	–	56,015	**57,836**
Goodwill	3,055	–	–	–	**–**
Development costs	81,375	55,506	45,557	32,955	**–**
Interests in associates	87,045	100,101	86,274	12,171	**3,931**
Interests in a jointly controlled entity	–	6,893	5,757	740	**–**
Investments in securities	3,385	4,585	1,385	1,385	**–**
Amounts due from associates – non current portion	–	–	–	–	**21,739**
Intangible asset – club memberships	–	–	–	–	**1,385**
Deposits for acquisition of investments	19,900	–	–	–	**–**
Net current assets	170,926	114,426	180,824	135,192	**72,999**
	451,958	362,306	390,786	300,127	**214,254**
Long-term liabilities	–	(84)	(50)	(3,355)	**(3,442)**
	451,958	362,222	390,736	296,772	**210,812**
Share capital	278,756	301,400	332,352	346,160	**373,398**
Reserves	171,754	60,808	58,384	(49,388)	**(162,586)**
Attributable to the equity holders of the Company	450,510	362,208	390,736	296,772	**210,812**
Minority interests	1,448	14	–	–	**–**
	451,958	362,222	390,736	296,772	**210,812**

Note: The consolidated results for the three years ended 31 March 2002, 2003 and 2004 have not been adjusted for the New HKFRSs.