

# Annual Report 2004 | 2005

**CULTURECOM HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)



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**DIRECTORS**

Cheung Wai Tung (*Chairman*)  
 Chu Bong Foo (*Vice-Chairman*)  
 Cheung Kam Shing, Terry (*Managing Director*)  
 Henry Chang Manayan (*Executive Director*)  
 Wan Xiaolin (*Executive Director*)  
 Lai Man To\*  
 Wang Tiao Chun\*  
 Joseph Lee Chennault\*

\* *Independent Non-Executive Director*

**COMPANY SECRETARY**

Cheung Wai Keung, Cecil

**QUALIFIED ACCOUNTANT**

Cheung Wai Keung, Cecil

**AUDIT COMMITTEE**

Lai Man To  
 Wang Tiao Chun  
 Joseph Lee Chennault

**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 HM12  
 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](http://www.culturecom.com.hk)

**STOCK CODE**

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## RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st March, 2005 amounted to HK\$47,247,000 (2004: HK\$40,655,000) of which HK\$47,010,000 (2004: HK\$39,184,000) was attributable to the business of comic publication of the Group and HK\$237,000 (2004: HK\$1,471,000) was attributable to the Chinese information infrastructure of the Group. Net loss attributable to shareholders, taking into account, taxation and minority interests, was HK\$162,931,000 (2004: HK\$72,467,000). The loss per share was HK4.84 cents (2004: HK2.37 cents).

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2005.

## BUSINESS REVIEW

### Core Technology Business

Based on its wholly-owned subsidiary, Culture.com Technology Limited, Culturecom Group has gone through all kinds of challenges to finally accomplish its mission to establish an industrial foundation and framework for Chinese Computing. The likely misunderstanding by the investing public towards the Group over the past years reminded the management the importance of mutual communications; the invaluable comments were meticulously reported and discussed within the management. The patron support and patience of dear investors and shareholders are deemed to be rewarded as the foundation has been built.

To develop a product or some technological knowhow usually take a path that normally goes through processes of focus and in-depth drilling until product roll-out. That is the typical way of trend-follower instead of trend-setter. Culturecom takes the latter which is a high risk high return method. Superb result is likely to envisage after years of development at Culturecom. A lucrative market is materialised upon the ability to grasp the mass market; to enter into the mass market requires the complete preparation of useful IT foundation. The attributes are largely determined by the following factors:

- (i) The "Embedded Chinese Character Generating Engine" (CCG), the essence of the thirty years' focused and painstaking labor of Mr. Chu Bong Foo, Vice-Chairman of the Group. This technology has revolutionized the cumbersome traditional Chinese print-edit method dated back to more than centuries ago. It is the embedded technology that heralds a small and exquisite mobile epoch for computers, and also the key IP technology that enhances the CPU functions in tackling Chinese;
- (ii) CPU core technology, the indispensable part to enhance the development of mass market computer. Culturecom has been successful in the past years to integrate CCG and CPU core technology to develop the "V-Dragon 1610 CPU". Subsequently, it has cooperated with IBM to launch the "V-Dragon 3210 CPU", forming the V-Dragon series brandname. V-Dragon series will be widely used in all kinds of Chinese embedded devices such as the e-textbook, Tax/POS terminal and Chinese network computer. In the future, the Group will utilize other CPU technology to develop more "V-Dragon Series" CPU while possessing its own mass market CPU core technology;

- (iii) The implementation of Linux Operation System, the must of promotion of mass market computer. The Group has been smoothly cooperating with the Chinese Academy of Sciences to launch "Red Office 2000 Linux". The product has been gathering momentum since launching to secure contracts from municipal governments, provincial governments, and autonomous region governments nationwide. Besides, the Company has cooperated with Transmeta Corporation, a hi-tech company based in Santa Clara, CA of USA, to secure the development and management right of the Midori Linux international public platform. The Midori Linux Operation System has become the internationally renowned embedded Linux system platform used by many leading international companies to develop different embedded products, such as the built-in software of Japan NTT DoCoMo communication products; and
- (iv) The establishment of a chained component and peripheral support network the last key factor to pave the way for a successful mass market product launching. The Group has allied with IBM to complete the industrial mother-board and respective menu of "V-Dragon 3210 CPU". This mother-board is the superb solution of internet accessible terminals and tax-terminal. In the age convergence to address the needs of getting mobile and to conform the most commonly adopted IT platform of x86, Culturecom has well prepared to integrate. The mobile area, based on the newly acquiring technology, is our near focus marketing area. We anticipate lucrative return from this area in the near future.

The above development aims at addressing the three issues in relation to the construction of Chinese computing foundation:

- (i) How to establish a Chinese embedded CPU core mechanism for the rapid popularization of computers in the PRC, especially the mobile communication computers;
- (ii) How to establish a mass market IT industry based on Linux and compatible to Windows; and
- (iii) How to rapidly establish an autonomous national industry chain based on the existing x86 industry standard to integrate the existing and comprehensive industrial support chain system including parts and software.

In our age characterized by integration of mainstream and non-mainstream computer mechanism and convergence of computer and communication, Culturecom has virtually finished its construction of the full foundation of an IT autonomous computer industry in the PRC. As such, Culturecom will be able to provide core solutions applicable to computers and communication products and compatible to mainstream x86 computer industry, bringing about notable revenue for the Group.

### **Comic Business**

During the year, our imported Japanese titles experienced strong growth with new books such as "Death Note" received high penetration and sales. Local comics remained stable growth together with economic recovery of the overall market and our momentum came from new business of electronic media such as licensing to movie, TV dramas and online game.

From 2005 onwards, over 10 major classic local comic titles will celebrate special anniversary since they were first published. Therefore, Culturecom is going to launch a new platform of multi-media product mix to revitalize the comic classics. In addition, online e-comic business in China is on the track with solid strategic alliance with major service providers such as Tencent QQ and Netease. Market diversification of value-added services will expand to major economies in Asia pacific region within the second half of 2005.

**PROSPECTS**

In the previous year, the Group has adopted a sound and steady financial principle to accelerate amortization, tighten up capital expenditure and maintain zero long term liabilities. For the past six years, the growth of Culturecom has been centered on Culture.com Technology Limited according to its unshakable development concept, and this has resulted in the emergence of its enormous technological values. Nowadays, it has become an IT enterprise with the industrial core value such that V-Dragon Series products and brands were formed. Along with the further development of the market, there will be more products launched under brand name V-Dragon, making substantial revenue contribution to the Group. Besides, possessing full IT industry fundamental conditions, it will surely become a major enterprise that controls the pattern of the Chinese communication computer industry, and the growth in it will turn it into a pillar enterprise for the whole Culturecom Group, bringing about immense interests for the whole group.



**Cheung Wai Tung**  
*Chairman*

Hong Kong, 22nd July, 2005

## FINANCIAL RESULTS

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

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

(i) *Turnover*

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

(ii) *Administrative expenses*

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

(iii) *Research and development*

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

(iv) *Net unrealised loss on other investments*

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

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

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

(vi) *Allowances and provision*

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

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

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

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

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

## WARRANTS

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in relation to the private placing of 430,000,000 warrants conferring rights to subscribe up to HK\$70,950,000 in aggregate in cash for shares of the Company at an initial subscription price of HK\$0.165 per share during the two years period from 8th July, 2003 to 7th July, 2005, both days inclusive. The placing of warrants was completed on 4th July, 2003.

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

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

### **PURCHASE OF ASSETS AND LICENCE OF TECHNOLOGY**

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

### **CONVERTIBLE BONDS**

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

### **LIQUIDITY AND FINANCIAL RESOURCES**

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

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

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

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

### **DEVELOPMENT COSTS OF I.T. PROJECTS**

As at 31st March, 2005, accumulated costs incurred for the development of Chinese language computer operating system, Chinese processors, Chinese electronic books and other Linux-based Chinese computer software amounted approximately to HK\$112,961,000 (2004: HK\$95,045,000) and the net book value was HK\$32,955,000 (2004: HK\$45,557,000). These development costs were deferred and written off over its estimated useful life range from two to five years from the date of commencement of commercial operations. For the year ended 31st March, 2005, the amortisation of development costs amounted to approximately HK\$23,818,000 (2004: HK\$18,706,000). In additions, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$8,819,000 (2004: HK\$4,815,000).

### **EMPLOYMENT AND REMUNERATION POLICIES**

As at 31st March, 2005, the Group had a total of 139 employees, of which 70 are based in Hong Kong, 56 are based in Macau and 13 are based in the PRC (2004: 89; 28 and 8 respectively). Total staff costs incurred during the year amounted to approximately HK\$28,518,000 (2004: HK\$30,222,000). Remuneration packages are maintained at competitive level and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors, employees and consultants, according to the assessment of individual merit and performance.

The Directors present their annual report and the audited financial statements for the year ended 31st March, 2005.

### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 14 and 16 to the financial statements respectively.

### **SUBSIDIARIES AND ASSOCIATES**

Details of the Company's subsidiaries and of the Group's associates at 31st March, 2005 are set out in notes 14 and 16 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 85% of the Group's turnover, of which 68.6% was attributable to the largest customer.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 86.1% of the Group's total purchases, of which 71.9% was attributable to the largest supplier.

Other than as disclosed above, 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 31st March, 2005 are set out in the consolidated income statement on page 24.

### **DIVIDEND**

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2005.

### **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 page 72.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$1,164,000 on the acquisitions of leasehold improvement and 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 11 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 24, 25 and 26 to the financial statements respectively.

## 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*)  
Mr. Henry Chang Manayan  
Mr. Wan Xiaolin

### Independent Non-Executive Directors:

Mr. Lai Man To  
Mr. Wang Tiao Chun  
Mr. Joseph Lee Chennault (appointed on 30th September, 2004)  
Ms. Juliet Wu (resigned on 30th September, 2004)

In accordance with Clauses 101, 110(A) and 190(v) of the Company's Bye-Laws, Messrs. Wan Xiaolin, Wang Tiao Chun and Joseph Lee Chennault will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Chu Bong Foo has entered into a service contract with the Company on 26th May, 1999 for a term of five years and would continued automatically for successive term of one year thereafter.

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 47, 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 67, 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. Cheung Kam Shing, Terry**, aged 42, was appointed as the Managing Director of the Company in April 2000 and is responsible for the Group's investment planning and corporate development. Mr. Cheung holds degree of a Bachelor and Master degree in Economics from University of Hong Kong and University of London respectively.

**Mr. Henry Chang Manayan**, aged 49, 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 47, 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 75, 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 49, 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.

**Mr. Joseph Lee Chennault**, aged 61, 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 47, 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 at Hong Kong's Horizon Structured Finance Ltd., the CNT Groups Ltd., the New China Hong Kong Group Ltd., and Taiwan's Taiwan Cement Group Ltd.. 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 50, 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 39, 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.

**Senior Management** (Continued)

**Mr. Feng Chia Chi**, aged 40, joined the Group as Chief Engineer in May 1999 and is responsible for the design and development of the Chinese character embedded CPU project. Mr. Feng is one of Mr. Chu Bong Foo's dedicated disciples and has extensive experience in the field of hardware development.

**Mr. Tang U Fai**, aged 32, 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 50, 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. Chan Chung Shing, Ricardo**, aged 44, joined the Group as General Manager in June 2000 and is responsible for the overall development and operation of the Chinese 2000 Linux-based software business. Mr. Chan holds a Bachelor of Engineering Science degree from the University of Western Ontario, Canada.

**Mr. Cheung Wai Keung, Cecil**, aged 37, 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 38, joined the Group as General Counsel in November 2000 and is responsible for all the legal matters of the Group.

## SHARE OPTION SCHEME

The Company has terminated its share option scheme adopted on 15th June, 1993 (the "1993 Scheme") and adopted a new share option scheme (the "2002 Scheme") on its 2002 Annual General Meeting held on 21st 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 47,100,000 and 341,700,000 respectively, totalling 388,800,000 shares which in aggregate representing approximately 10.41% 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 26 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:

	Date of Grant	Number of share options				At 31st March, 2005	Exercise price per share	Exercisable Period	Price of the Company's shares immediately preceding the exercise date of share options (note)
		At 1st April, 2004	Granted/Cancelled/lapsed during the year	Exercised during the year					
						HK\$		HK\$	
<b>(a) Directors</b>									
Mr. Cheung Wai Tung	3rd March, 2000	4,565,000	-	-	4,565,000	1.680	3rd March, 2000 to 2nd March, 2010	N/A	
Mr. Chu Bong Foo	(i) 27th August, 1999	10,000,000	-	-	10,000,000	0.264	27th August, 1999 to 26th August, 2009	N/A	
	(ii) 3rd March, 2000	2,000,000	-	-	2,000,000	1.680	3rd March, 2000 to 2nd March, 2010	N/A	
Mr. Cheung Kam Shing, Terry	3rd March, 2000	3,000,000	-	-	3,000,000	1.680	3rd March, 2000 to 2nd March, 2010	N/A	
Mr. Henry Chang Manayan	(i) 27th August, 1999	2,000,000	-	(1,000,000)	1,000,000	0.264	27th August, 1999 to 26th August, 2009	0.55	
	(ii) 3rd March, 2000	500,000	-	-	500,000	1.680	3rd March, 2000 to 2nd March, 2010	N/A	
Mr. Wan Xiaolin	3rd March, 2000	1,000,000	-	-	1,000,000	1.680	3rd March, 2000 to 2nd March, 2010	N/A	
<b>(b) Employees</b>	3rd March, 2000	25,035,000	-	-	25,035,000	1.680	3rd March, 2000 to 2nd March, 2010	N/A	

*Note:* The price of the Company's shares disclosed as at immediately preceding the date of exercises 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 exercise of the share options.

**SHARE OPTION SCHEME (Continued)**

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

	Date of Grant	At 1st April, 2004	Number of share options			At 31st March, 2005	Exercise price per share HK\$	Exercisable Period	Price of the Company's shares (note)	
			Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year				At immediately preceding the grant date of share options HK\$	At immediately preceding the exercise date of share options HK\$
<b>(a) Directors</b>										
Mr. Cheung Wai Tung	19th December, 2003	4,000,000	-	-	-	4,000,000	0.265	19th December, 2003 to 18th December, 2013	N/A	N/A
Mr. Cheung Kam Shing, Terry	19th December, 2003	3,000,000	-	-	-	3,000,000	0.265	19th December, 2003 to 18th December, 2013	N/A	N/A
Mr. Henry Chang Manayan	19th December, 2003	1,000,000	-	-	-	1,000,000	0.265	19th December, 2003 to 18th December, 2013	N/A	N/A
Mr. Wan Xiaolin	19th December, 2003	3,000,000	-	-	-	3,000,000	0.265	19th December, 2003 to 18th December, 2013	N/A	N/A
<b>(b) Employees</b>										
(i)	19th December, 2003	48,200,000	-	(10,500,000)	-	37,700,000	0.265	19th December, 2003 to 18th December, 2013	N/A	0.551
(ii)	24th March, 2005	-	71,000,000	-	-	71,000,000	0.295	24th March, 2005 to 23rd March, 2015	0.290	N/A
<b>(c) Others</b>										
(i)	19th December, 2003	41,000,000	-	(21,000,000)	-	20,000,000	0.265	19th December, 2003 to 18th December, 2013	N/A	0.551
(ii)	24th March, 2005	-	262,000,000	(35,000,000)	-	227,000,000	0.295	24th March, 2005 to 23rd March, 2015	0.290	0.290

The share options granted are not recognized in the financial statements until they are exercised. The Directors consider that it is not appropriate to disclose the value of share options granted during the year, since any valuation of the above share options would be subject to a number of assumptions that would be subjective and uncertain.

*Note:* The price of the Company's shares disclosed as at immediately preceding the date of the grant of the share options is 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 shares 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.

## 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 31st March, 2005, 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. Cheung Wai Tung	Beneficial owner	Personal interest	10,000,000	0.29%
Mr. Chu Bong Foo	(i) Beneficial owner (ii) Interest of a controlled corporation	Personal interest Corporate interest	220,180,000 122,872,000 (note 1)	9.91%
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000	0.06%
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 <i>(note 1)</i>	1.680	3rd March, 2000 to 2nd March, 2010	0.25%
	(ii)	Beneficial owner	Personal interest	4,000,000 <i>(note 1)</i>	0.265	19th December, 2003 to 18th December, 2013	
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest	10,000,000 <i>(note 2)</i>	0.264	27th August, 1999 to 26th August, 2009	0.35%
	(ii)	Beneficial owner	Personal interest	2,000,000 <i>(note 2)</i>	1.680	3rd March, 2000 to 2nd March, 2010	
Mr. Cheung Kam Shing, Terry	(i)	Beneficial owner	Personal interest	3,000,000 <i>(note 3)</i>	1.680	3rd March, 2000 to 2nd March, 2010	0.17%
	(ii)	Beneficial owner	Personal interest	3,000,000 <i>(note 3)</i>	0.265	19th December, 2003 to 18th December, 2013	
Mr. Henry Chang Manayan	(i)	Beneficial owner	Personal interest	1,000,000 <i>(note 4)</i>	0.264	27th August, 1999 to 26th August, 2009	0.07%
	(ii)	Beneficial owner	Personal interest	500,000 <i>(note 4)</i>	1.680	3rd March, 2000 to 2nd March, 2010	
	(iii)	Beneficial owner	Personal interest	1,000,000 <i>(note 4)</i>	0.265	19th December, 2003 to 18th December, 2013	
Mr. Wan Xiaolin	(i)	Beneficial owner	Personal interest	1,000,000 <i>(note 5)</i>	1.680	3rd March, 2000 to 2nd March, 2010	0.12%
	(ii)	Beneficial owner	Personal interest	3,000,000 <i>(note 5)</i>	0.265	19th December, 2003 to 18th 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 3rd March, 2000 to subscribe for 4,565,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010. On 19th 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 19th December, 2003 to 18th 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 27th August, 1999 to subscribe for 10,000,000 shares at the exercise price of HK\$0.264 per share for the exercisable period from 27th August, 1999 to 26th August, 2009; and (ii) on 3rd March, 2000 to subscribe for 2,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010.
3. Pursuant to the 1993 Scheme, Mr. Cheung Kam Shing, Terry was granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010 upon his appointment as Managing Director of the Company on 1st April, 2000. On 19th December, 2003, Mr. Cheung 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 19th December, 2003 to 18th December, 2013 under the 2002 Scheme.
4. Pursuant to the 1993 Scheme, Mr. Henry Chang Manayan was granted share options by the Company (i) on 27th August, 1999 to subscribe for 3,000,000 shares at the exercise price of HK\$0.264 per share for the exercisable period from 27th August, 1999 to 26th August, 2009; and (ii) on 3rd March, 2000 to subscribe for 500,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd 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 18th February, 2000. On 19th 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 19th December, 2003 to 18th 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 6th April, 2004.
5. Pursuant to the 1993 Scheme, Mr. Wan Xiaolin was granted share options by the Company on 3rd March, 2000 to subscribe for 1,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010. On 19th 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 19th December, 2003 to 18th December, 2013 under the 2002 Scheme.

*All interests stated above represent long positions.*

**DISCLOSURE OF INTERESTS (Continued)**

Save as disclosed above, as at 31st March, 2005, 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 31st March, 2005, 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***

<b>Name</b>	<b>Capacity</b>	<b>Nature of interests</b>	<b>Number of shares held</b>	<b>Approximate percentage of issued share capital</b>
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	220,180,000	9.91%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 <i>(note 1)</i>	

*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***

<b>Name of Director</b>	<b>Capacity</b>	<b>Nature of interest</b>	<b>Number of share options</b>	<b>Approximate percentage of issued share capital</b>
Mr. Chu Bong Foo	Beneficial owner	Personal interest	12,000,000	0.35%

*The interest stated above represents long position.*

Save as disclosed above, as at 31st March, 2005, 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.

**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.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31st March, 2005 with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1st January, 2005 except that the Independent Non-Executive Directors of the Company were appointed without specific term as they were subject to retirement by rotation in accordance with the Bye-laws of the Company.

**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 "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 Code during the year ended 31st March, 2005.

### AUDIT COMMITTEE

The Audit Committee 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 31st March, 2005.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### 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.

### 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, 22nd July, 2005

# Deloitte.

## 德勤

### TO THE SHAREHOLDERS OF CULTURECOM HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 24 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing 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 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 Statements of Auditing Standards 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2005 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, 22nd July, 2005

# Consolidated Income Statement

For the year ended 31st March, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover		47,247	40,655
Cost of sales		(37,004)	(31,364)
Gross profit		10,243	9,291
Other operating income		6,994	7,942
Administrative expenses		(81,913)	(64,458)
Amortisation of development costs		(23,818)	(18,706)
Research and development expenditures		(8,819)	(4,815)
Allowances for trade and other debtors		(8,166)	(1,123)
Net unrealised (loss) gain on other investments		(42,324)	15,600
Loss from operations	6	(147,803)	(56,269)
Share of results of associates		(10,034)	(9,514)
Share of result of a jointly controlled entity		(1,526)	(1,136)
Gain on disposal of an associate		–	1,995
Loss on deemed disposal of an associate		–	(1,548)
Finance costs	7	(9)	(9)
Write back of impairment loss previously recognised in respect of property, plant and equipment		23,000	–
Allowances for loans to associates		(5,591)	–
Impairment loss recognised in respect of development costs	13	(6,700)	–
Impairment loss recognised in respect of goodwill in reserve	27	(10,777)	(6,000)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	17	(3,491)	–
Loss before taxation		(162,931)	(72,481)
Taxation	9	–	–
Loss before minority interests		(162,931)	(72,481)
Minority interests		–	14
Net loss for the year		(162,931)	(72,467)
Loss per share – basic and diluted	10	HK(4.84) cents	HK(2.37) cents

# Consolidated Balance Sheet

At 31st March, 2005

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	Notes	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	62,004	70,989
Investment properties	12	56,015	–
Development costs	13	32,955	45,557
Interests in associates	16	12,171	86,274
Interest in a jointly controlled entity	17	740	5,757
Investments in securities	18	1,385	1,385
		<b>165,270</b>	<b>209,962</b>
<b>Current assets</b>			
Inventories	19	3,595	15,783
Trade debtors	20	9,152	10,979
Other debtors, deposits and prepayments		23,151	33,903
Amounts due from related companies		7,640	7,668
Amount due from a jointly controlled entity		1,540	82
Amounts due from associates	21	75,796	–
Taxation recoverable		62	–
Investments in securities	18	23,036	65,948
Bank balances and deposits with other financial institutions		15,194	69,809
		<b>159,166</b>	<b>204,172</b>
<b>Current liabilities</b>			
Trade creditors	22	9,645	5,482
Other creditors and accrued charges		14,163	17,344
Amounts due to related companies		467	488
Obligations under a finance lease – amount due within one year	23	34	34
		<b>24,309</b>	<b>23,348</b>
<b>Net current assets</b>			
		<b>134,857</b>	<b>180,824</b>
		<b>300,127</b>	<b>390,786</b>
<b>Capital and reserves</b>			
Share capital	24	346,160	332,352
Reserves	27	(46,049)	58,384
		<b>300,111</b>	<b>390,736</b>
<b>Non-current liabilities</b>			
Obligations under a finance lease – amount due after one year	23	16	50
		<b>300,127</b>	<b>390,786</b>

The financial statements on pages 24 to 71 were approved and authorised for issue by the Board of Directors on 22nd July, 2005 and are signed on its behalf by:

**Cheung Wai Tung**  
Director

**Wan Xiaolin**  
Director

# Balance Sheet

At 31st March, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	14	80,709	80,709
Amounts due from subsidiaries	15	–	264,235
Loans to associates	16	–	3,970
		<u>80,709</u>	<u>348,914</u>
<b>Current assets</b>			
Amounts due from associates	21	3,970	–
Amounts due from subsidiaries	15	204,304	–
Other debtors, deposits and prepayments		3,444	3,444
Bank balances		8,334	42,291
		<u>220,052</u>	<u>45,735</u>
<b>Current liabilities</b>			
Other creditors and accrued charges		509	492
		<u>509</u>	<u>492</u>
<b>Net current assets</b>			
		<u>219,543</u>	<u>45,243</u>
		<u>300,252</u>	<u>394,157</u>
<b>Capital and reserves</b>			
Share capital	24	346,160	332,352
Reserves	27	(45,908)	61,805
		<u>300,252</u>	<u>394,157</u>

**Cheung Wai Tung**  
Director

**Wan Xiaolin**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31st March, 2005

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	<b>Total equity</b> HK\$'000
At 1st April, 2003	362,208
Exchange differences on translation of overseas operations not recognised in the income statement	170
Issue of warrants	23,774
Exercise of warrants	18,104
Exercise of share options	52,947
Impairment loss recognised in respect of goodwill arising on acquisition of an associate included in reserve	6,000
Net loss for the year	<u>(72,467)</u>
At 31st March, 2004 and 1st April, 2004	390,736
Exchange differences on translation of overseas operations not recognised in the income statement	7
Exercise of warrants	11,646
Exercise of share options	18,937
Share issue expenses	(51)
Surplus on revaluation of investment properties	30,990
Impairment loss recognised in respect of goodwill arising on acquisition of an associate included in reserve	10,777
Net loss for the year	<u>(162,931)</u>
At 31st March, 2005	<u><u>300,111</u></u>

# Consolidated Cash Flow Statement

For the year ended 31st March, 2005

	2005 HK\$'000	2004 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	<b>(162,931)</b>	(72,481)
Adjustments for:		
Amortisation of development costs	<b>23,818</b>	18,706
Depreciation and amortisation of property, plant and equipment	<b>7,422</b>	10,957
Dividend income	<b>(82)</b>	(140)
Interest expenses	<b>9</b>	9
Interest income	<b>(328)</b>	(389)
Loss on disposal of property, plant and equipment	<b>219</b>	3
Write-down of inventories	<b>14,294</b>	2,500
Allowances for trade and other debtors	<b>8,166</b>	1,123
Net realised loss (gain) on investments	<b>342</b>	(1,960)
Net unrealised loss (gain) on investments in securities	<b>42,324</b>	(15,600)
Share of results of associates	<b>10,034</b>	9,514
Share of result of a jointly controlled entity	<b>1,526</b>	1,136
Gain on disposal of an associate	<b>–</b>	(1,995)
Loss on deemed disposal of an associate	<b>–</b>	1,548
Impairment loss recognised in respect of development costs	<b>6,700</b>	–
Impairment loss recognised in respect of goodwill in reserve	<b>10,777</b>	6,000
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	<b>3,491</b>	–
Write back of impairment loss previously recognised in respect of property, plant and equipment	<b>(23,000)</b>	–
Allowances for amounts due from associates	<b>5,591</b>	–
Operating cash flows before movements in working capital	<b>(51,628)</b>	(41,069)
Increase in inventories	<b>(2,106)</b>	(4,436)
(Increase) decrease in trade debtors	<b>(1,339)</b>	1,515
Decrease in other debtors, deposits and prepayments	<b>5,752</b>	1,454
Decrease (increase) in amounts due from related companies	<b>28</b>	(1,469)
Increase in amount due from a jointly controlled entity	<b>(1,458)</b>	(59)
Increase (decrease) in trade creditors	<b>4,163</b>	(565)
(Decrease) increase in other creditors and accrued charges	<b>(3,181)</b>	3,300
Decrease in amounts due to related companies	<b>(21)</b>	(487)
<b>NET CASH USED IN OPERATIONS</b>	<b>(49,790)</b>	(41,816)
Interest received	<b>328</b>	389
Hong Kong Profits Tax (paid) refunded	<b>(62)</b>	398
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(49,524)</b>	(41,029)

# Consolidated Cash Flow Statement

For the year ended 31st March, 2005

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	2005 HK\$'000	2004 HK\$'000
<b>INVESTING ACTIVITIES</b>		
Additions to development costs	(17,438)	(8,121)
Advances to associates	(17,318)	(9,241)
Purchase of investments in securities	(2,331)	–
Purchase of property, plant and equipment	(1,164)	(1,790)
Proceeds from disposal of investments in securities	2,577	5,062
Dividend received from investments in securities	82	140
Proceeds from disposal of property, plant and equipment	5	–
Proceeds from disposal of an associate	–	14,001
	<u>(35,587)</u>	<u>51</u>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from issue of shares	30,583	71,051
Share issue expenses	(51)	–
Repayment of obligations under a finance lease	(34)	(34)
Interest paid	(9)	(9)
Net proceeds from issue of warrants	–	23,774
	<u>30,489</u>	<u>94,782</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>30,489</b>	<b>94,782</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(54,622)</b>	<b>53,804</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>69,809</b>	<b>15,835</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>7</b>	<b>170</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>15,194</b>	<b>69,809</b>
<b>ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and deposits with other financial institutions	<u>15,194</u>	<u>69,809</u>

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are being listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the transactions and short term financing raised on 27th June, 2005 of approximately HK\$99,000,000 as mentioned in note 34. Provided that the funding from placing of convertible bonds as mentioned in note 34 can be secured, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which agreement date is from 1st January, 2005 to 31st March, 2005, therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of other New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities and investment properties and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries 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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

##### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

##### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid less any discount on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

##### **Revenue recognition**

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

Property rental income under operating leases is recognised on a straight line basis over the terms of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

##### **Jointly controlled entity**

Joint venture arrangement which involve the establishment of a separate entity in which each venturer has an interest is referred to as jointly controlled entity.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment loss.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

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

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.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

##### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment properties revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Impairment**

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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

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.

##### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

##### **Research and development costs**

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are separately identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Finance lease**

Lease is classified as an finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the asset concerned to the Group. Asset held under a finance lease is capitalised at its fair value at the date of acquisition. The corresponding liabilities to the lessor, net of interest charges, are included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the asset acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the terms of the relevant leases.

##### **Inventories**

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

##### **Taxation**

Income tax expense 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 net 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 of income or expense that are never taxable or deductible.

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 negative 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Taxation (continued)**

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.

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate, if applicable. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated to Hong Kong dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as an expense in the year in which the operation is disposed of.

**Retirement benefits costs**

Payments to the Group's retirement benefits scheme are charged as an expense as they fall due.

**5. 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 holding	– investment holding

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**

**Business segments (continued)**

Segment information about these businesses is presented below:

**Income statement for the year ended 31st March, 2005**

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>47,010</u>	<u>237</u>	<u>–</u>	<u>47,247</u>
Segment results	<u>1,291</u>	<u>(80,862)</u>	<u>(41,113)</u>	(120,684)
Unallocated corporate expenses				<u>(27,119)</u>
Loss from operations				(147,803)
Share of results of associates	–	(4,234)	(5,800)	(10,034)
Share of result of a jointly controlled entity	–	(1,526)	–	(1,526)
Finance costs				(9)
Write back of impairment loss previously recognised in respect of property, plant and equipment				23,000
Allowance for loans to associates	–	(5,591)	–	(5,591)
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)	–	<u>(3,491)</u>
Loss before taxation				(162,931)
Taxation				<u>–</u>
Loss before minority interests				(162,931)
Minority interests				<u>–</u>
Net loss for the year				<u>(162,931)</u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)****Business segments (continued)****Balance sheet at 31st March, 2005**

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>				
Segment assets	<u>21,093</u>	<u>126,008</u>	<u>30,698</u>	177,799
Interests in associates	–	12,171	–	12,171
Interest in a jointly controlled entity	–	740	–	740
Unallocated corporate assets				<u>133,726</u>
Consolidated total assets				<u>324,436</u>
<b>LIABILITIES</b>				
Segment liabilities	<u>14,997</u>	<u>3,461</u>	<u>690</u>	19,148
Unallocated corporate liabilities				<u>5,177</u>
Consolidated total liabilities				<u>24,325</u>

**Other information for the year ended 31st March, 2005**

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	17	918	–	229	1,164
Additions of development costs	–	17,916	–	–	17,916
Amortisation of development costs	–	23,564	–	254	23,818
Depreciation and amortisation of property, plant and equipment	866	3,769	16	3,249	7,900
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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Income statement for the year ended 31st March, 2004

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>39,184</u>	<u>1,471</u>	<u>–</u>	<u>40,655</u>
Segment results	<u>377</u>	<u>(29,409)</u>	<u>(15,490)</u>	<u>(44,522)</u>
Unallocated corporate expenses				<u>(11,747)</u>
Loss from operations				(56,269)
Share of results of associates	–	(7,654)	(1,860)	(9,514)
Share of result of a jointly controlled entity	–	(1,136)	–	(1,136)
Gain on disposal of an associate	–	–	1,995	1,995
Loss on deemed disposal of an associate	–	(1,548)	–	(1,548)
Finance costs				(9)
Impairment loss recognised in respect of goodwill in reserve	–	(6,000)	–	<u>(6,000)</u>
Loss before taxation				(72,481)
Taxation				<u>–</u>
Loss before minority interests				(72,481)
Minority interests				<u>14</u>
Net loss for the year				<u><u>(72,467)</u></u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)****Business segments (continued)****Balance sheet at 31st March, 2004**

	<b>Publishing</b> HK\$'000	<b>Chinese information infrastructure</b> HK\$'000	<b>Investment holding</b> HK\$'000	<b>Consolidated</b> HK\$'000
<b>ASSETS</b>				
Segment assets	22,696	81,698	130,438	234,832
Interests in associates	–	22,964	63,310	86,274
Interest in a jointly controlled entity	–	5,757	–	5,757
Unallocated corporate assets				87,271
Consolidated total assets				414,134
<b>LIABILITIES</b>				
Segment liabilities	10,892	6,277	673	17,842
Unallocated corporate liabilities				5,556
Consolidated total liabilities				23,398

**Other information for the year ended 31st March, 2004**

	<b>Publishing</b> HK\$'000	<b>Chinese information infrastructure</b> HK\$'000	<b>Investment holding</b> HK\$'000	<b>Unallocated</b> HK\$'000	<b>Consolidated</b> HK\$'000
Additions of property, plant and equipment	7	1,574	–	209	1,790
Additions of development costs	–	8,757	–	–	8,757
Amortisation of development costs	–	18,706	–	–	18,706
Depreciation and amortisation of property, plant and equipment	1,030	4,077	17	6,469	11,593
Allowances for trade and other debtors	93	1,030	–	–	1,123
Impairment loss recognised in respect of goodwill in reserve	–	6,000	–	–	6,000

**5. 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 and loss to operations by location of markets, irrespective of the origin of the goods/services:

	Turnover		Loss from operations	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	47,247	40,373	(135,939)	(39,345)
PRC	–	282	(11,864)	(16,924)
	<u>47,247</u>	<u>40,655</u>	<u>(147,803)</u>	<u>(56,269)</u>

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	319,402	404,694	19,038	3,411
PRC	5,034	9,440	42	7,136
	<u>324,436</u>	<u>414,134</u>	<u>19,080</u>	<u>10,547</u>

**6. LOSS FROM OPERATIONS**

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 8)	<b>5,346</b>	4,656
Other staff costs:		
– Retirement benefits schemes contributions	<b>635</b>	807
– Salaries and other benefits (note)	<b>22,537</b>	24,759
	<b>28,518</b>	30,222
Less: Amount capitalised in the development costs	<b>430</b>	5,356
	<b>28,088</b>	24,866
Auditors' remuneration	<b>835</b>	870
Write-down of inventories	<b>14,294</b>	2,500
Depreciation and amortisation		
– Owned assets	<b>7,875</b>	11,568
– Asset held under a finance lease	<b>25</b>	25
	<b>7,900</b>	11,593
Less: Amount capitalised in the development costs	<b>478</b>	636
	<b>7,422</b>	10,957
Loss on disposal of property, plant and equipment	<b>219</b>	3
Operating lease rentals in respect of rented premises	<b>1,533</b>	1,278
Net realised loss (gain) on investments in securities	<b>342</b>	(1,960)
Net property rental income under operating leases, net of direct outgoings of HK\$200,000 (2004: HK\$142,000)	<b>(3,907)</b>	(2,973)
Interest income	<b>(328)</b>	(389)
Dividend income	<b>(82)</b>	(140)

*Note:* Amount includes salaries of HK\$5,122,000 (2004: Nil) paid to employees engaged in research and development activities. The amount is classified as research and development expenditures in the income statement.

## 7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on a finance lease	<u>9</u>	<u>9</u>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	2005 HK\$'000	2004 HK\$'000
Directors' remuneration:		
Fees:		
Executive directors	480	360
Independent non-executive directors	<u>720</u>	<u>120</u>
	<u>1,200</u>	<u>480</u>
Other emoluments:		
Executive directors:		
Salaries and other benefits	3,978	4,008
Retirement benefits scheme contributions	42	48
Independent non-executive directors:		
Salaries and other benefits	<u>126</u>	<u>120</u>
	<u>4,146</u>	<u>4,176</u>
	<u>5,346</u>	<u>4,656</u>

**8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)****(a) Directors' emoluments (continued)**

Emoluments of the directors were within the following bands:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	3	3
	<u>9</u>	<u>8</u>

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 (2004: three) were directors of the Company whose emoluments are included in the disclosure in note 8(a) above. The details of the remaining two (2004: two) highest paid individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	2,297	2,201
Retirement benefits scheme contributions	24	24
	<u>2,321</u>	<u>2,225</u>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Employees' emoluments (continued)

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

## 9. TAXATION

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

Details of the unprovided deferred taxation are set out in note 28.

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

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	<u>(162,931)</u>	<u>(72,481)</u>
Taxation at the domestic income tax rate of 17.5%	(28,513)	(12,684)
Tax effect of income not taxable for tax purpose	(4,082)	(417)
Tax effect of estimated tax losses not recognised	18,815	9,916
Tax effect of expenses not deductible for tax purpose	<u>13,780</u>	<u>3,185</u>
Taxation for the year	<u>—</u>	<u>—</u>

## 10. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$162,931,000 (2004: HK\$72,467,000) and the weighted average number of 3,366,259,000 (2004: 3,058,898,000) 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 net loss per share.

## 11. PROPERTY, PLANT AND EQUIPMENT

	<b>Leasehold land and building HK\$'000</b>	<b>Leasehold improvements HK\$'000</b>	<b>Plant and machinery HK\$'000</b>	<b>Vehicles, furniture and equipment HK\$'000</b>	<b>Total HK\$'000</b>
<b>THE GROUP</b>					
<b>COST</b>					
At 1st April, 2004	128,400	32,106	15,289	62,390	238,185
Additions	–	228	–	936	1,164
Transfer to investment properties (note 12)	(68,761)	–	–	–	(68,761)
Disposals	–	–	(839)	(15,353)	(16,192)
At 31st March, 2005	<u>59,639</u>	<u>32,334</u>	<u>14,450</u>	<u>47,973</u>	<u>154,396</u>
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>					
At 1st April, 2004	81,670	28,077	12,679	44,770	167,196
Provided for the year	1,036	1,254	592	5,018	7,900
Transfer to investment properties (note 12)	(43,736)	–	–	–	(43,736)
Write back of impairment (Note)	(23,000)	–	–	–	(23,000)
Eliminated on disposals	–	–	(615)	(15,353)	(15,968)
At 31st March, 2005	<u>15,970</u>	<u>29,331</u>	<u>12,656</u>	<u>34,435</u>	<u>92,392</u>
<b>NET BOOK VALUES</b>					
At 31st March, 2005	<u>43,669</u>	<u>3,003</u>	<u>1,794</u>	<u>13,538</u>	<u>62,004</u>
At 31st March, 2004	<u>46,730</u>	<u>4,029</u>	<u>2,610</u>	<u>17,620</u>	<u>70,989</u>

*Note:* The directors have reassessed the recoverable amount of the medium-term leasehold land and building and write back an impairment loss previously recognised of approximately HK\$23,000,000.

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

The leasehold land and building of the Group at 31st March, 2005 are situated in Hong Kong and held under a medium-term lease.

At the balance sheet date, included in vehicles, furniture and equipment is an asset held under a finance lease with net book value of HK\$103,000 (2004: HK\$128,000).

Subsequent to the balance sheet date, the leasehold land and building have been pledged to secure a short term loan granted to the Group from an independent third party of HK\$70,000,000. Details of the subsequent event are set out in note 34.

## 12. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	HK\$'000
Transfer from property, plant and equipment	25,025
Surplus on revaluation	<u>30,990</u>
At 31st March, 2005	<u><u>56,015</u></u>

Investment properties were valued at their open market value at 31st March, 2005 by Messrs. Castores Magi (Hong Kong) Limited.

This valuation gave rise to a revaluation increase which has been credited to the investment properties revaluation reserve.

All of the Group's investment properties are rented out under operating leases.

Subsequent to the balance sheet date, the Group's investment properties have been pledged to secure a short term loan granted to the Group from an independent third party of HK\$70,000,000. Details of the subsequent event are set out in note 34.

The investment properties of the Group at 31st March, 2005 are situated in Hong Kong and held under a medium-term lease.

### 13. DEVELOPMENT COSTS

	<b>THE GROUP</b> HK\$'000
<hr/>	
<b>COST</b>	
At 1st April, 2004	95,045
Additions	<u>17,916</u>
At 31st March, 2005	<u>112,961</u>
 <b>AMORTISATION AND IMPAIRMENT</b>	
At 1st April, 2004	49,488
Amortised for the year	23,818
Impairment loss recognised	<u>6,700</u>
At 31st March, 2005	<u>80,006</u>
 <b>NET BOOK VALUES</b>	
At 31st March, 2005	<u><u>32,955</u></u>
At 31st March, 2004	<u><u>45,557</u></u>

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.

In response to the rapid change of the I.T. environment, the Group assessed the recoverable amounts of its development costs and recognised an impairment loss of approximately HK\$6,700,000.

## 14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	374,246	374,246
Less: Impairment loss recognised	(293,537)	(293,537)
	<b>80,709</b>	<b>80,709</b>

Particulars of the Company's principal subsidiaries as at 31st March, 2005 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	Development of electronic publication
Culturecom Enterprises Limited	Hong Kong	Ordinary HK\$2	100	Management services
Culturecom Holdings (BVI) Limited	British Virgin Islands ("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 ("Culture.com")	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

**14. INVESTMENTS IN SUBSIDIARIES (continued)**

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
			%	
CultureKid i-shop (HK) Limited	Hong Kong	Ordinary HK\$2	100	Retailing and development of computer application software
Growlong Company Limited	Hong Kong	Ordinary HK\$10,000	100	Licensing
Culturecom Online Limited	Hong Kong	Ordinary HK\$2	100	Electronic publication
文傳漫畫設計(深圳)有限公司 (Note)	PRC	Registered HK\$1,000,000	100	Comics design and production
SNIIC Technology Limited	Hong Kong	Ordinary HK\$50,000	100	Development of secure numerical internetwork information center
Winway H.K. Investments Company Limited ("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 6th June, 2000.

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 of assets or liabilities of the Group.

## 15. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand. In 2004, the amounts were classified as non-current assets since the directors were in the opinion that the amounts would not be repaid within twelve months from the balance sheet date.

## 16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Share of net assets	12,171	22,205	–	–
Loans to associates	–	92,069	–	3,970
Allowances for loans to associates	–	(28,000)	–	–
	<u>12,171</u>	<u>86,274</u>	<u>–</u>	<u>3,970</u>
Market value of listed shares	<u>9,900</u>	<u>31,500</u>	<u>–</u>	<u>–</u>

The loans are unsecured, interest free and repayable on demand. In 2004, the amounts were classified as non-current assets since the directors were in the opinion that the amounts would not be repaid within twelve months from the balance sheet date.

**16. INTERESTS IN ASSOCIATES (continued)**

Particulars of the Group's principal associates as at 31st March, 2005 are as follows:

Name	Form of business structure	Country/ 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	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
DNA Incorporated	Incorporated	Cayman Islands/ Hong Kong	Ordinary	34	Research and development of novel vaccines for veterinary infections diseases
Impact Lift Technology Limited	Incorporated	BVI/Hong Kong	Ordinary	20	Research and development, and holding of biofertiliser for vegetable production
The Universal.Com Technology Limited	Incorporated	Hong Kong	Ordinary	30	Publishing and development of electronic publication

## 16. INTERESTS IN ASSOCIATES (continued)

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

In May 2003, 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 Group 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 claimed 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. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

## 17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	740	1,878
Premium on formation of a jointly controlled entity	3,491	3,879
Less: Impairment loss recognised	(3,491)	—
	<u>740</u>	<u>5,757</u>

As at 31st March, 2005, the Group had interests 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	Sino-foreign equity joint venture	PRC	51	Sales of Chinese information infrastructure products

**17. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)**

Details of the movement in premium on formation of a jointly controlled entity are as follows:

	HK\$'000
<hr/>	
<b>COST</b>	
At 1st April, 2004 and 31st March, 2005	4,655
	<hr/>
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1st April, 2004	776
Amortised for the year	388
Impairment loss recognised	3,491
	<hr/>
At 31st March, 2005	4,655
	<hr/>
<b>CARRYING AMOUNTS</b>	
At 31st March, 2005	–
	<hr/> <hr/>
At 31st March, 2004	3,879
	<hr/> <hr/>

The premium on formation of a jointly controlled entity is amortised to the income statement on a straight-line basis over 12 years. Amortisation charge has been included in the amount reported as share of result of a jointly controlled entity in the consolidated income statement.

Due to continuous losses incurred by the jointly controlled entity, the directors recognised an impairment loss of HK\$3,491,000.

## 18. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
THE GROUP						
Non-current assets:						
Unlisted securities –						
Equity securities	<u>1,385</u>	<u>1,385</u>	<u>–</u>	<u>–</u>	<u>1,385</u>	<u>1,385</u>
Current assets:						
Listed equity securities –						
Hong Kong	<u>–</u>	<u>–</u>	<u>20,791</u>	<u>63,714</u>	<u>20,791</u>	<u>63,714</u>
Overseas	<u>–</u>	<u>–</u>	<u>445</u>	<u>434</u>	<u>445</u>	<u>434</u>
Unlisted debt securities	<u>–</u>	<u>–</u>	<u>21,236</u>	<u>64,148</u>	<u>21,236</u>	<u>64,148</u>
	<u>–</u>	<u>–</u>	<u>1,800</u>	<u>1,800</u>	<u>1,800</u>	<u>1,800</u>
	<u>–</u>	<u>–</u>	<u>23,036</u>	<u>65,948</u>	<u>23,036</u>	<u>65,948</u>
	<u>1,385</u>	<u>1,385</u>	<u>23,036</u>	<u>65,948</u>	<u>24,421</u>	<u>67,333</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>21,236</u>	<u>64,148</u>	<u>21,236</u>	<u>64,148</u>

## 19. INVENTORIES

The inventories of the Group represent finished goods which included an amount of HK\$578,000 (2004: HK\$14,286,000) carried at net realisable value at the balance sheet date.

## 20. 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:

	<b>THE GROUP</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
0 – 60 days	7,360	5,979
61 – 90 days	183	582
Over 90 days	1,609	4,418
	<u>9,152</u>	<u>10,979</u>

## 21. AMOUNTS DUE FROM ASSOCIATES

The amounts are unsecured, interest free and repayable on demand.

## 22. TRADE CREDITORS

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

	<b>THE GROUP</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
0 – 60 days	5,086	4,475
61 – 90 days	2,090	166
Over 90 days	2,469	841
	<u>9,645</u>	<u>5,482</u>

**23. OBLIGATIONS UNDER A FINANCE LEASE**

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amounts payable under a finance lease:				
Within one year	43	43	34	34
In the second to fifth years inclusive	21	64	16	50
	<u>64</u>	<u>107</u>	<u>50</u>	<u>84</u>
Less: Future finance charges	(14)	(23)	–	–
Present value of lease obligations	<u>50</u>	<u>84</u>	<u>50</u>	<u>84</u>
Less: Amount due from settlement within one year shown under current liabilities			(34)	(34)
Amount due after one year			<u>16</u>	<u>50</u>

The lease term in respect of the vehicles, furniture and equipment held under the finance lease is 5 years.

## 24. SHARE CAPITAL

	Number of shares		Share capital	
	2005 '000	2004 '000	2005 HK\$'000	2004 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1st April	<b>4,000,000</b>	4,000,000	<b>400,000</b>	400,000
Increase on 24th August, 2004	<b>2,000,000</b>	–	<b>200,000</b>	–
At 31st March	<b>6,000,000</b>	4,000,000	<b>600,000</b>	400,000
Issued and fully paid:				
At 1st April	<b>3,323,520</b>	3,014,000	<b>332,352</b>	301,400
Exercise of share options (Note)	<b>67,500</b>	199,800	<b>6,750</b>	19,980
Exercise of warrants (Note 25)	<b>70,580</b>	109,720	<b>7,058</b>	10,972
At 31st March	<b>3,461,600</b>	3,323,520	<b>346,160</b>	332,352

Note: During the year, the subscription rights attaching to 1,000,000, 31,500,000 and 35,000,000 share options were exercised at subscription prices of HK\$0.264, HK\$0.265 and HK\$0.295 per shares respectively, resulting in the issue of 67,500,000 shares of HK\$0.10 each for a total consideration of approximately HK\$18,937,000.

## 25. WARRANTS

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in relation to the private placing of 430,000,000 warrants (“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 8th July, 2003 to 7th July, 2005, both days inclusive. The placing of 2005 Warrants was completed on 4th 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 70,580,000 units (2004: 109,720,000 units) of outstanding 2005 warrants exercised their rights to subscribe for 70,580,000 shares (2004: 109,720,000 shares) in the Company at HK\$0.165 per share.

On 31st March, 2005, the Company had 249,700,000 units of outstanding 2005 Warrants conferring rights to subscribe up to approximately HK\$41,201,000 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 31st March, 2005, result in the issue of 249,700,000 additional shares of HK\$0.10 each in the Company.

## 26. SHARE OPTION SCHEME

### (A) Share option scheme adopted on 15th 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 21st August, 2002, the Old Option Scheme was resolved by the shareholders of the Company to have been cancelled thereon. However, the share options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

**26. SHARE OPTION SCHEME (continued)****(B) Share option scheme adopted on 21st August, 2002 (“New Option Scheme”)**

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 21st 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 Options 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 and such limit might be refreshed by shareholders in general meeting. The scheme mandate limit of the New Option Scheme was refreshed by the approval of the shareholders in the 2004 Annual General Meeting. At 31st March, 2005, the total number of shares of the Company available for issue under the Company’s New Option Scheme was 366,700,000 (2004: 100,200,000) shares, representing 10.59% (2004: 3.01% ) 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.

**26. SHARE OPTION SCHEME** (continued)

**(B) Share option scheme adopted on 21st August, 2002 (“New Option Scheme”)**  
(continued)

- (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.
- (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 20th August, 2012.

**26. SHARE OPTION SCHEME (continued)****(B) Share option scheme adopted on 21st August, 2002 (“New Option Scheme”)  
(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:

Category of participants	Name of scheme	Date of grant	Exercisable period	Exercise price HK\$	Number of share options								
					Outstanding at 1.4.2003	Granted during 2003/04	Exercised during 2003/04	Lapsed during 2003/04	Outstanding at 31.3.2004 and 1.4.2004	Granted during 2004/05	Exercised during 2004/05 (note)	Lapsed during 2004/05	Outstanding at 31.3.2005
Directors	Old Option Scheme	27.8.1999	27.8.1999 – 26.8.2009	0.264	12,000,000	-	-	-	12,000,000	-	(1,000,000)	-	11,000,000
		3.3.2000	3.3.2000 – 2.3.2010	1.680	11,065,000	-	-	-	11,065,000	-	-	-	11,065,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	-	11,000,000	-	-	11,000,000	-	-	-	11,000,000
					<u>23,065,000</u>	<u>11,000,000</u>	<u>-</u>	<u>-</u>	<u>34,065,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>33,065,000</u>
Employees	Old Option Scheme	3.3.2000	3.3.2000 – 2.3.2010	1.680	27,535,000	-	-	(2,500,000)	25,035,000	-	-	-	25,035,000
		19.12.2003	19.12.2003 – 18.12.2013	0.265	-	173,000,000	(124,800,000)	-	48,200,000	-	(10,500,000)	-	37,700,000
	New Option Scheme	24.3.2005	24.3.2005 – 23.3.2015	0.295	-	-	-	-	-	71,000,000	-	-	71,000,000
					<u>27,535,000</u>	<u>173,000,000</u>	<u>(124,800,000)</u>	<u>(2,500,000)</u>	<u>73,235,000</u>	<u>71,000,000</u>	<u>(10,500,000)</u>	<u>-</u>	<u>133,735,000</u>
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	-	116,000,000	(75,000,000)	-	41,000,000	-	(21,000,000)	-	20,000,000
		24.3.2005	24.3.2005 – 23.3.2015	0.295	-	-	-	-	-	262,000,000	(35,000,000)	-	227,000,000
						<u>-</u>	<u>116,000,000</u>	<u>(75,000,000)</u>	<u>-</u>	<u>41,000,000</u>	<u>262,000,000</u>	<u>(56,000,000)</u>	<u>-</u>
					<u>50,600,000</u>	<u>300,000,000</u>	<u>(199,800,000)</u>	<u>(2,500,000)</u>	<u>148,300,000</u>	<u>333,000,000</u>	<u>(67,500,000)</u>	<u>-</u>	<u>413,800,000</u>

*Note:* The prices of the Company’s shares as at immediately preceding the dates of the exercise of the share option at the respective exercise prices of HK\$0.265 and HK\$0.295 (being the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their respective exercise dates) were HK\$0.551 (2004: HK\$0.578) and HK\$0.290 (2004: nil) respectively.

Total consideration received during the year from employees and other participants for taking up the share options granted is amounted to HK\$27 (2004: HK\$98).

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the share options are exercised, and no charge is recognised in the income statement in respect of the value of share options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

27. RESERVES

	Share premium HK\$'000	Contribution surplus HK\$'000	Goodwill reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP									
At 1st April, 2003	630,013	171,671	(62,948)	-	1,500	446	(307)	(679,567)	60,808
Exchange differences on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	170	-	170
Proceeds from issue of warrants, net of expenses	-	-	-	-	23,774	-	-	-	23,774
Exercise of warrants	7,132	-	-	-	-	-	-	-	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	-	-	-	(6,066)	-	-	-	-
Exercise of share options	32,967	-	-	-	-	-	-	-	32,967
Impairment loss recognised (note)	-	-	6,000	-	-	-	-	-	6,000
Net loss for the year	-	-	-	-	-	-	-	(72,467)	(72,467)
At 31st March, 2004 and 1st April, 2004	676,178	171,671	(56,948)	-	19,208	446	(137)	(752,034)	58,384
Exchange differences on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	7	-	7
Exercise of warrants	4,588	-	-	-	-	-	-	-	4,588
Transfer from other reserve to share premium due to exercise of warrants	3,902	-	-	-	(3,902)	-	-	-	-
Exercise of share options	12,187	-	-	-	-	-	-	-	12,187
Share issue expenses	(51)	-	-	-	-	-	-	-	(51)
Surplus on revaluation	-	-	-	30,990	-	-	-	-	30,990
Impairment loss recognised (note)	-	-	10,777	-	-	-	-	-	10,777
Net loss for the year	-	-	-	-	-	-	-	(162,931)	(162,931)
At 31st March, 2005	<u>696,804</u>	<u>171,671</u>	<u>(46,171)</u>	<u>30,990</u>	<u>15,306</u>	<u>446</u>	<u>(130)</u>	<u>(914,965)</u>	<u>(46,049)</u>
Attributable to:									
Company and subsidiaries	696,804	171,671	(46,171)	30,990	13,806	446	(130)	(856,061)	11,355
Associates	-	-	-	-	1,500	-	-	(53,635)	(52,135)
A jointly controlled entity	-	-	-	-	-	-	-	(5,269)	(5,269)
	<u>696,804</u>	<u>171,671</u>	<u>(46,171)</u>	<u>30,990</u>	<u>15,306</u>	<u>446</u>	<u>(130)</u>	<u>(914,965)</u>	<u>(46,049)</u>

Note: Due to continuous losses incurred by an associate, the directors recognised an impairment loss of HK\$10,777,000 (2004: HK\$6,000,000).

**27. RESERVES (continued)**

	Share premium HK\$'000	Contribution surplus HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1st April, 2003	630,013	262,143	–	446	(827,417)	65,185
Proceeds from issue of warrants, net of expenses	–	–	23,774	–	–	23,774
Exercise of warrants	7,132	–	–	–	–	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	–	(6,066)	–	–	–
Exercise of share options	32,967	–	–	–	–	32,967
Net loss for the year	–	–	–	–	(67,253)	(67,253)
At 31st March, 2004 and 1st April, 2004	676,178	262,143	17,708	446	(894,670)	61,805
Exercise of warrants	4,588	–	–	–	–	4,588
Transfer from other reserve to share premium due to exercise of warrants	3,902	–	(3,902)	–	–	–
Exercise of share options	12,187	–	–	–	–	12,187
Share issue expenses	(51)	–	–	–	–	(51)
Net loss for the year	–	–	–	–	(124,437)	(124,437)
At 31st March, 2005	<u>696,804</u>	<u>262,143</u>	<u>13,806</u>	<u>446</u>	<u>(1,019,107)</u>	<u>(45,908)</u>

The contributed surplus of the Group 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 reserves of the Group represents the share of other reserve of an associate and proceeds from issue of warrants net of expenses and transferred to share premium due to exercise of warrants.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

## 27. RESERVES (continued)

Other reserve of the Company represents the proceeds from issue of warrants net of expenses and transferred to share premium due to exercise of warrants.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at the balance sheet date, the Company has no reserves available for distribution to shareholders.

## 28. DEFERRED TAXATION

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

	<b>Accelerated tax depreciation</b>	<b>Estimated tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2003	2,092	(2,092)	–
(Credit) charge to income statement for the year	(237)	237	–
Effect of change in tax rate charge (credit) to income statement for the year	197	(197)	–
At 31st March, 2004 and 1st April, 2004	2,052	(2,052)	–
(Credit) charge to income statement for the year	(62)	62	–
At 31st March, 2005	<u>1,990</u>	<u>(1,990)</u>	<u>–</u>

## 28. DEFERRED TAXATION (continued)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in Statement of Standard Accounting Practice 12 (Revised).

At 31st March, 2005, the Group has unused estimated tax losses of HK\$466,798,000 (2004: HK\$359,639,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$11,371,000 (2004: HK\$11,726,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$455,427,000 (2004: HK\$347,913,000) due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

## 29. 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 subsidiaries. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contributions is matched by employees.

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 statements of HK\$677,000 (2004: HK\$855,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

### 30. RELATED PARTY TRANSACTIONS

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

	Sales income received from related companies		Rental income received from related companies		Management fee received from related companies		Other income received from related companies		Other expense paid to related companies		Promotional fee paid to related companies		Amounts due from related companies		Amounts due to related companies	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	-	122	639	730	120	120	61	-	1,675	-	-	1,260	75,796	64,069	-	-
Subsidiaries of a shareholder	-	-	295	396	-	-	43	-	20	-	-	-	7,640	7,668	467	488
Jointly controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	1,540	82	-	-

All the above transactions were carried out at terms mutually agreed by the relevant parties.

In addition, the Group provided a guarantee to Transmeta Corporation ("Transmeta") 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.

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

**31. OPERATING LEASE COMMITMENTS****The Group as lessee**

At 31st March, 2005, the Group had commitments for future minimum lease payment in respect of rented premises which fall due as follows:

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>6</b>	552
In the second to fifth year inclusive	–	210
	<b>6</b>	762

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 is fixed for an average of two years.

**The Group as lessor**

Property rental income earned during the year was HK\$4,107,000 (2004: HK\$3,115,000).

At 31st March, 2005, the Group had contracted with tenants for the following future minimum lease payments:

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3,188</b>	2,372
In the second to fifth year inclusive	<b>519</b>	1,412
	<b>3,707</b>	3,784

Lease is negotiated for an average term of two years.

At the balance sheet date, the Company has no operating lease commitments.

## 32. CONTINGENT LIABILITIES

### THE GROUP AND THE COMPANY

- (a) At 31st March, 2005, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2004: 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 has been provided in the financial statements.
- (b) During the year ended 31st March, 2004, the Company and eForce Holdings Limited (“eForce”), on a joint and several basis, provided a guarantee to Transmeta in respect of the payment obligations of service fees of China Ever Limited. Pursuant to the agreement between the Company, eForce, China Ever Limited and Transmeta, China Ever Limited shall pay a service fee of US\$66,000 per month to Transmeta for a term of 20 months from 22nd November, 2003. At the balance sheet date, China Ever Limited had outstanding balance of US\$66,000 with Transmeta.

## 33. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the capital expenditure on the development costs	<u><b>4,708</b></u>	<u>1,404</u>

### 34. POST BALANCE SHEET EVENTS

#### (1) Purchase of assets and licence of technology

Subsequent to the balance sheet date, the Group has entered into the following transactions:

##### (a) Purchase of assets

On 27th May, 2005, Culture.com, a wholly owned subsidiary of the Company, entered into an asset purchase agreement (the "Asset Purchase Agreement") with Transmeta pursuant to which Culture.com agreed to purchase the assets and technology including all intellectual property rights of Crusoe Microprocessor and the Crusoe trademark and any similar rights for an aggregate cash consideration of US\$5,000,000 (equivalent to approximately HK\$39,000,000).

##### (b) Licence of technology

On 27th May, 2005, Culture.com entered into the licence agreement (the "Licence Agreement") with Transmeta pursuant to which Transmeta agreed to grant to Culture.com (i) a worldwide, exclusive royalty-bearing licence to use the documentation, reference designs, tools and technical manufacturing guidelines, design information and technical documentation for the manufacture and sale of the Crusoe Microprocessor and (ii) a royalty-bearing licence to manufacture and sell the Efficeon Microprocessor in China.

Culture.com shall pay an one-off licence fee in the amount of US\$10,000,000 (equivalent to approximately HK\$78,000,000) and an on-going royalty based on a set percentage of the Group's net sales of the Crusoe Microprocessor and the Efficeon Microprocessor.

The consideration of abovementioned transactions (a) and (b) are originally intended to be financed by placing of convertible bonds (the "Convertible Bonds") up to an aggregate principal amount of HK\$300,000,000. The Convertible Bonds will carry a right to convert into new shares at the conversion price of, subject to adjustment, HK\$0.60 per share from the expiry of six months from the date of issue of the Convertible Bonds to the day preceding the fifth anniversary of date of issue of Convertible Bonds. 500,000,000 shares will be allotted and issued upon full conversion of the Convertible Bonds.

### 34. POST BALANCE SHEET EVENT (continued)

#### (1) Purchase of assets and licence of technology (continued)

However, as at 27th June, 2005 being the time stipulated in the Asset Purchase Agreement and the Licence Agreement for payment of the respective sums into escrow, the placing of the Convertible Bonds had not yet been completed. As such, the Group sought and obtained alternative short term financing and used the Company's working capital to satisfy the total balances of HK\$117,000,000.

The placing of the Convertible Bonds is still proceeding and the net proceeds of the placing are now intended to firstly repay the short term financing and the remaining balance of which will be retained as the Company's working capital.

Details of the short term financing as mentioned above raised by the Group are as follows:

Lender	Amount advanced HK\$	Interest rate	Duration of advance	Security	Lender's relationship with the Group
Cheung Wai Tung	29,000,000	Nil	No fixed term	Nil	Chairman and executive director of the Company
Overseas Associate Limited	70,000,000	8% per annum	3 months	Lien over title deeds to the Group's property	Independent third party
	<u>99,000,000</u>				

Details of the above transactions were set out in the Company's announcements dated 7th June, 2005 and 28th June, 2005.

#### (2) Exercise of warrants

Subsequent to the balance sheet date, 247,380,000 units of outstanding 2005 Warrants were exercised to subscribe for 247,380,000 shares in the Company at HK\$0.165 per share. The net proceeds were amounted to approximately HK\$40,817,000. The remaining 2,320,000 units of 2005 Warrants were expired on 7th July, 2005.

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 31st March,				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
<b>RESULTS</b>					
Turnover	88,625	64,338	59,138	40,655	47,247
Loss before taxation	(112,001)	(197,640)	(150,937)	(72,481)	(162,931)
Taxation credit	110	189	141	–	–
Loss after taxation	(111,891)	(197,451)	(150,796)	(72,481)	(162,931)
Minority interests	–	1,888	1,434	14	–
Loss attributable to shareholders	(111,891)	(195,563)	(149,362)	(72,467)	(162,931)
	As at 31st March,				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
<b>ASSETS AND LIABILITIES</b>					
Property, plant and equipment	103,255	86,272	80,795	70,989	62,004
Investment properties	–	–	–	–	56,015
Goodwill	–	3,055	–	–	–
Development costs	25,275	81,375	55,506	45,557	32,955
Interests in associates	72,075	87,045	100,101	86,274	12,171
Interests in a jointly controlled entity	–	–	6,893	5,757	740
Investments in securities	37,280	3,385	4,585	1,385	1,385
Deposits for acquisition of investments	78,063	19,900	–	–	–
Net current assets	279,260	170,926	114,426	180,824	134,857
	595,208	451,958	362,306	390,786	300,127
Share capital	271,016	278,756	301,400	332,352	346,160
Reserves	324,192	171,754	60,808	58,384	(46,049)
Shareholders' funds	595,208	450,510	362,208	390,736	300,111
Minority interests	–	1,448	14	–	–
Long-term liabilities	–	–	84	50	16
	595,208	451,958	362,306	390,786	300,127