



**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\*  
Juliet Wu\*

\* *Independent non-executive director*

**COMPANY SECRETARY**

Cheung Wai Keung, Cecil

**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

**COMPANY WEBSITE**

[www.culturecom.com.hk](http://www.culturecom.com.hk)

**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

# CHAIRMAN'S STATEMENT

## RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st March, 2004 amounted to HK\$40,655,000 (2003: HK\$59,138,000) of which HK\$39,184,000 (2003: HK\$55,539,000) was attributable to the business of comic publication of the Group and HK\$1,471,000 (2003: HK\$3,599,000) was attributable to the Chinese information infrastructure of the Group. Net loss attributable to shareholders, taking into account, taxation and minority interests, was HK\$72,467,000 (2003: HK\$149,362,000). The loss per share was HK2.37 cents (2003: HK4.99 cents).

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2004.

## FOREWORD

One could always recall Mr. Chu Bong Foo, Vice-Chairman of the Group, made public his "concept computing-network" speech at the National Taiwan University in 1993 and his theory and construction work of "Chinese Character DNA" in July 1999 in Beijing, which stirred up brisk discussions and controversies that are still vivid in mind, feeling as if one experienced them in person. Over the past six years, the entire Group has paid unrelenting efforts to develop "V-Dragon Chinese Computer Core", throughout when we have had the pleasure to be considerably supported by IBM and the various Linux teams. As a result, we have led the computer system into the reforming stage where a new age of Chinese Intelligent Computer will come about. Sharing the same goal of imparting and inheriting the 5000-year-old Chinese culture, which bears the label of being one of the world's "Four Greatest Civilizations", and merging the Western and Eastern cultures in the IT era, Mr. Chu Bong Foo and every colleague of Culturecom have dedicated themselves wholeheartedly to the work.

## BUSINESS REVIEW

### **The new system of theory and construction work of "Chinese Character DNA" and Culturecom's Industrial Standard of "V-Dragon Chinese Intelligent Appliance Computing Products"**

After six years of hardship, the Group's insistence on promoting the full computer popularization in China has hardly ceased. The ideal computing evolution we endeavor to research on and to develop does not aim at encouraging the public to "Learn computer skills and use Chinese", but to "Learn Chinese and use computers". This is the type of computer which will become in the genuinely popularized form. In order to invent such kind of computers, we have no choice but to start from research in the area of "Chinese Character DNA".

Mr. Chu Bong Foo has immersed himself in the research work of DNA of Chinese processing. His historical contribution lies in the invention of "Chinese Character DNA" which can fit perfectly into the computer calculating system, which he achieved, on the basis of the existing abundant pool of Chinese culture and history research information, through the tedious processes of simplification and denumerization. His spirit of dogged perseverance embodied in rearranging the numerous Chinese characters has eventually been rewarded by the successful integration of traditional Chinese culture and characters, which have existed for thousands of years, and the computer's CPU, the core of modern information technology.

In the process of carrying out the R&D on "Chinese Character DNA", Mr. Chu Bong Foo successfully distilled the "DNA" of Chinese character's definitions out and categorized them into an Indexing system of "conceptual structure" and Indexing system of "application and causation knowledge base", forming a complete system of "Chinese characters' cognition". When the computer accepts Chinese characters, various Chinese humanities and related knowledge will automatically be functioned within the computer's cognizance through the cognition system, resulting in that the computer will understand Chinese character. In the future, it is possible that everyone can use the natural language of Chinese to give instructions to their computer, and the computer will follow up the users' instructions in using the natural language. Thereby, the computer will become a more suitable application tool for the general public to use in their daily life.

In the year 2003, under the inspiring guidance of the theory of "Chinese Character DNA", Culturecom, in collaboration with IBM, developed V-Dragon CPU, which was embedded with the world's first grain of 64-base components conceptual DNA of Chinese Characters and which was embedded with the "Chinese Character Generating Engine" (CCG) and the "Chinese Character Driver" (CCD).

Subsequently, the Group has started to develop Midori Linux, the core of the embedded operating system (Kernel), connecting to the "Chinese characters' cognition system" with the embedded operating system and forming "Midori Linux Chinese Character's Intelligent Operation System" with the "Chinese Character Generating Environment", which enables users, with the help of "Culturecom Code" (CC Code), to use the natural language of Chinese to freely instruct the computers to operate according to human demand. "Embedded Chinese Character's Intelligent Operation System Code" (Midori CI Kernel) will become the world's first popularized and general intelligent I.A. operating platform.

V-Dragon CPU, the CPU in which the 64-base components conceptual DNA of Chinese Characters was embedded, and "Midori Linux Chinese Character's Intelligent Operation System" formed the core of "Chinese Character DNA", which in effect is the core technology of the Chinese Intelligent IT industry, and the core technology for the industrial development of various intelligent computers I.A. and intelligent electrical appliances, including intelligent telephones and intelligent televisions. Meanwhile, it will definitely initiate a direction for the Chinese computer industry development. It will leap over the historical stage of PC, liberate itself from Wintel's monopolistic control, assist the non-PC community to realize a swift popularization of computer and to enter into the informative society. It will become a way out for the global IT industry development.

## CHAIRMAN'S STATEMENT

## V-Dragon CPU and its Mother Board

The success of a new computer industry technology is greatly dependent on the success of the computer popularized market in China. Therefore, the Group has formed an important strategic alliance with IBM. With the assistance of IBM, we have successfully developed V-Dragon CPU, the world's first grain of CPU in which the conceptual DNA of 64-base components Chinese Characters was embedded. Targeting at the beginners who use computers other than personal computer, we have technologically prepared ourselves. Together with IBM, we aim at developing the market of 1,200,000,000 new computer users in China, expanding the Chinese computer business and building up a brand new customer community outside the PC market.

In July 2003, the Group has officially launched the V-Dragon CPU and its mother board at the "First Conference on the Development of Chinese IT & V-Dragon CPU Trade Forum", which was held in Hong Kong. Shortly after the Conference, the Group won the close attention from the international scientific and technological communities. In February 2004, the Group convened the "Seminar of the Creation of China's Self-Developed IT Standard" in Shenzhen and announced the official birth of an "Industrial Standard of V-Dragon Midori Embedded System" in the meeting. This new embedded general operation technological structure and standard will integrate with the prosperous industry of electrical appliances in China, which will result in the commencement of a brand new Chinese Intelligent Computer industry.

During last year, since V-Dragon CPU and its mother board have been launched, large numbers of manufacturers inside and outside the country have expressed their interests in applying the V-Dragon Core Technology to develop various kinds of new-generation Chinese Intelligent I.A. products, including Chinese Intelligent tax controlled gathering machine, Chinese Intelligent learning machine and Chinese Intelligent set top box. It is estimated that all of these will in turn be launched in the market next year, bringing substantial returns to the Group.

## Great Network-towns of COL-eTown

The Group and IBM have collaborated to meet the strategic aim which is to create new market ecology of Chinese intelligent computer industry. Therefore, under the "Chinese COL-eTown" plan, and through the Chinese computer network, the Group has constructed an enormous Chinese computer user base to form an extensive info-community comprising of counties and towns, and thus to establish a national "Great Network-towns" of COL-eTown.

COL-eTown is an entity focusing on B2C model, which is a regional distributor of V-Dragon CPU and also serves as the trading, logistic and management platform for various types of township internet-based commodities trade. This brand-new computer application system creates an info-community of Chinese computer network. Different kinds of software, content, education, production and operation activities, technology support, information service and forth are supported by the centralized COL-eTown system, and connected to all end-users, such that the intellectual property rights can be effectively esteemed and protected in a protective system, and that different kinds of livelihood technology and IT industry in the world are orderly introduced to and applied in the township economy, with an aim to establish an internationally united-systemized knowledge-economic development zone.

Moreover, the COL-eTown computer application system with low price, whole Chinese operation, and full scale guide, support and services will induce transformation in a New Economic Development Model of "Three Farming Technology" for outland China and some medium to small towns, enabling the great majority of the mainland cities and towns to build up knowledge-based local new industry, agriculture and processing industry with direct connection with the international market by leveraging the information technology means that can shorten time-space distances, and realizing the full transformation to the new agricultural economy characterized by knowledge-economy and "Three Farming and Three Transforming" (namely rural informatization, farmers intellectualization and enterprise-style operation, agriculture internationalization). Thus, COL-eTown, the enormous development region of knowledge-economy, will sure to greatly encourage the international IT industry and forebode a vast new giant business opportunity to be developed and shared by all.

### **Comic Business**

Recovery of overall economy in Hong Kong since last October had brought Culturecom's comic business back to normal. Outbreak of SARS dampened the market environment in South East Asia during the first half of the financial year and had trimmed our turnover and margin. Our efforts to set up a multi-media platform in Greater China continue with increasing number of collaborators will launch our value-added services in the second half of 2004.

### **PROSPECTS**

We believe that the V-Dragon new industrial system and standard can totally get rid of the fetters of the structure of "Wintel x86", genuinely accomplish the take-off and popularization of the desirable computers, making it a living tool of the general public. As such, an era of using the desirable computers will see the device to be "Existing everywhere, Existing all around" is drawing near.



**Cheung Wai Tung**

*Chairman*

Hong Kong, 22nd July, 2004

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESULTS

The Group's overall turnover for the year ended 31st March, 2004 decreased by 31% to approximately HK\$40,655,000 over last year, of which approximately HK\$39,184,000 and HK\$1,471,000 (2003: HK\$55,539,000 and HK\$3,599,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the year ended 31st March, 2004, the Group's consolidated net loss attributable to shareholders decreased by 52% to approximately HK\$72,467,000 as compared to that of the last year. The loss per share for the year was HK2.37 cents (2003: HK4.99 cents). The loss from the operation for the year under review was mainly due to:

- (i) the management has imposed further control on the operating costs, the administrative expense for the year was decreased by approximately HK\$14,329,000 or 18% over the previous year, which was mainly attributable to the decrease in staff costs by approximately 37%;
- (ii) allowances of approximately HK\$1,123,000 for the other debtors and deposits was made while the allowances made for last year was approximately HK\$25,975,000;
- (iii) amortization of deferred development costs amounted to HK\$18,706,000 and expenditures of approximately HK\$4,815,000 charged during the year for the research and development of the information technology projects; and
- (iv) unrealized gain on other investments of approximately HK\$15,600,000 but it was a loss of approximately HK\$5,565,000 in last year.

The Directors believe that the loss for the consecutive financial years will be improved once when the revenue from the group's technology projects is generated in the coming year. In fact, sales orders in respect of V-Dragon CPU and its mother board have been received, and sales revenue thereof will be recognised when the products are delivered in next year.

At 31st March, 2004, the Group's net asset value was HK\$390,736,000 and net asset value per weighted average number of 3,058,898,000 shares of the Company was approximately HK\$0.13 (2003: HK\$0.12).



## PLACEMENT OF WARRANTS

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in connection with 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 HK\$0.10 each in the share capital 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. The net proceeds of the placing of approximately HK\$23,774,000 had been used for the general working capital of the Group.

During the year, 109,720,000 warrants had been exercised and the Company received approximately HK\$18,104,000 from the proceeds of the exercise of the warrants of which, approximately HK\$1,241,000 was used as working capital of the Group and the balance of approximately HK\$16,863,000 was placed as deposits with banks in Hong Kong at the end of the year.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2004, the Group had deposits with banks and other financial institutions in aggregate of approximately HK\$69,809,000 and marketable securities of approximately HK\$65,948,000. The Group has no significant exposure to foreign exchange rate fluctuations.

As at 31st March, 2004, the Group's total liabilities amounted to HK\$23,398,000 and represented approximately 6% (2003: 6%) to the shareholders' equity.

The Directors believe that the Group currently has sufficient liquidity to finance its daily operation, and the net proceeds from the exercise of the remaining warrants in the future would further strengthen the financial position of the Group.

## DEVELOPMENT COSTS OF I.T. PROJECTS

As at 31st March, 2004, accumulated costs incurred for the development of the Group's information technology projects amounted approximately to HK\$95,045,000 (2003: HK\$86,288,000). These development costs are deferred and written off over its estimated useful life range from two to five years from the date of commencement of commercial operations. For the year ended 31st March, 2004, the amortization of development costs amounted to approximately HK\$18,706,000 (2003: HK\$18,431,000). In additions, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$4,815,000 (2003: HK\$9,356,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

**EMPLOYMENT AND REMUNERATION POLICIES**

As at 31st March, 2004, the Group had a total of 125 employees, of which 89 are based in Hong Kong, 28 are based in Macau and 8 are based in the PRC. Total staff costs incurred during the year amounted to approximately HK\$30,222,000 (2003: HK\$44,663,000). 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.

# 10 DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st March, 2004.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 13 and 15 to the financial statements respectively.

## SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and of the Group's associates at 31st March, 2004 are set out in notes 13 and 15 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 91.4% of the Group's turnover, of which 59.9% was attributable to the largest customer.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 89.5% of the Group's total purchases, of which 64.1% 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, 2004 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, 2004.

## 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 68.

## DIRECTORS' REPORT

**PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately HK\$1,728,000 on the acquisition of vehicles, furniture and equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 10 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 22, 23 and 24 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  
Ms. Juliet Wu

In accordance with Clauses 110(A) and 190(v) of the Company's Bye-Laws, Messrs. Chu Bong Foo and Henry Chang Manayan 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).

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. Cheung Wai Tung**, aged 46, 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 66, 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 41, 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 48, 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 46, 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.

## DIRECTORS' REPORT

## Independent Non-Executive Directors

**Mr. Lai Man To**, aged 74, 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 48, 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.

**Ms. Juliet Wu**, aged 47, was appointed as an Independent Non-Executive Director of the Company in May 2001. Ms. Wu was the Managing Director & Vice President of TCL Holdings Co., Ltd. and General Manager of TCL Information Technology Industrial (Group) Company Ltd.

## Senior Management

**Dr. Chen Tzyh Trong**, aged 46, 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 49, 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**, age 38, joined the Group as a Vice President in December 1998 and is responsible for publishing business and corporate development of the Group. Mr. Chen is also non-executive director of Mobile Telecom Network (Holdings) Limited, a listed company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited; and Chief Financial Officer and Company Secretary of ViaGOLD Capital Limited, a listed company on the Australian Stock Exchange Limited. 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 39, 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 31, 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 49, 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 43, 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.

**Ms. Lau Tien May**, aged 50, joined the Group as Vice President in April 1999 and is responsible for the Group's corporate development and development of electronic publishing business. Ms. Lau has over 20 years of experience in publishing, advertising, public relations and corporate development.

**Mr. Cheung Wai Keung, Cecil**, aged 36, 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.

**Mr. Wong Shu Pui**, aged 37, joined the Group as General Counsel in November 2000 and is responsible for all the legal matters of the Group.

## DIRECTORS' REPORT

## 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 95,900,000 respectively, totalling 143,000,000 shares which in aggregate representing approximately 4.29% 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 24 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	At 1st April, 2003	Number of share options Granted/ Exercised/ Cancelled during the year	Lapsed during the year	At 31st March, 2004	Exercise price per share HK\$	Exercisable Period
<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
Mr. Chu Bong Foo	(i) 27th August, 1999	10,000,000	–	–	10,000,000	0.264	27th August, 1999 to 26th August, 2009
	(ii) 3rd March, 2000	2,000,000	–	–	2,000,000	1.680	3rd March, 2000 to 2nd March, 2010
Mr. Cheung Kam Shing, Terry	3rd March, 2000	3,000,000	–	–	3,000,000	1.680	3rd March, 2000 to 2nd March, 2010
Mr. Henry Chang Manayan	(i) 27th August, 1999	2,000,000	–	–	2,000,000	0.264	27th August, 1999 to 26th August, 2009
	(ii) 3rd March, 2000	500,000	–	–	500,000	1.680	3rd March, 2000 to 2nd March, 2010
Mr. Wan Xiaolin	3rd March, 2000	1,000,000	–	–	1,000,000	1.680	3rd March, 2000 to 2nd March, 2010
<b>(b) Employees</b>	3rd March, 2000	27,535,000	–	(2,500,000) (note)	25,035,000	1.680	3rd March, 2000 to 2nd March, 2010

Note: These share options lapsed during the year due to staff resignation or death.



**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	Number of share options				At 31st March, 2004	Exercise price per share HK\$	Exercisable Period	Price of the Company's shares (note)	
		At 1st April, 2003	Granted during the year	Exercised during the year	Lapsed/ Cancelled 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	0.260	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	0.260	N/A
Mr. Henry Chang Manayan	19th December, 2003	-	1,000,000	-	-	1,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	N/A
Mr. Wan Xiaolin	19th December, 2003	-	3,000,000	-	-	3,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	N/A
<b>(b) Employees</b>	19th December, 2003	-	173,000,000	(124,800,000)	-	48,200,000	0.265	19th December, 2003 to 18th December, 2013	0.260	0.578
<b>(c) Others</b>	19th December, 2003	-	116,000,000	(75,000,000)	-	41,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	0.578

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.

## DIRECTORS' REPORT

**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, 2004, 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 of Hong Kong Limited (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	0.30%
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)	10.32%
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	1,000,000	0.03%
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000	0.02%

*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 HK\$	Exercisable period	Approximate percentage of issued share capital	
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	0.26%
	(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	0.36%
	(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	0.18%
	(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	2,000,000 <i>(note 4)</i>	0.264	27th August, 1999 to 26th August, 2009	0.11%
	(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	

## DIRECTORS' REPORT

**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.
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, 2004, 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, 2004, so far as is known to any Director or chief executive of the Company, the following person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO:

#### *Interests in the shares of the Company*

Name	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	220,180,000	10.32%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (note 1)	

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.*

## DIRECTORS' REPORT

**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	0.36%

*The interest stated above represents long position.*

Save as disclosed above, as at 31st March, 2004, 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.

**CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31st March, 2004 with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

**AUDIT COMMITTEE**

To comply with the revised Code of Best Practice, an audit committee was formed in March 1999 comprising two members, namely Messrs. Lai Man To and Wang Tiao Chun (the Independent Non-Executive Directors of the Company) to review the Group's financial reports and internal control.

### **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.

### **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, 2004

# AUDITORS' REPORT

## 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 67 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 Society of 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, 2004 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, 2004



For the year ended 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover		40,655	59,138
Cost of sales		<u>(31,364)</u>	<u>(48,220)</u>
Gross profit		9,291	10,918
Other operating income		7,942	3,584
Administrative expenses		(64,458)	(78,787)
Amortisation of development costs		(18,706)	(18,431)
Research and development expenditures		(4,815)	(9,356)
Allowances for other debtors and deposits		(1,123)	(25,975)
Net unrealised gain (loss) on other investments		15,600	(5,565)
Amortisation of goodwill		<u>–</u>	<u>(220)</u>
Loss from operations	5	(56,269)	(123,832)
Share of results of associates		(9,514)	(8,518)
Share of result of a jointly controlled entity		(1,136)	(2,607)
Gain on disposal of an associate		1,995	–
Loss on deemed disposal of an associate		(1,548)	–
Finance costs	6	(9)	(16)
Impairment loss recognised in respect of goodwill reserve	25	(6,000)	–
Gain on disposal of subsidiaries		–	16,328
Allowance for loans to associates		–	(28,000)
Impairment loss recognised in respect of goodwill arising on acquisition of an associate		–	(4,389)
Gain on expiry of warrants		<u>–</u>	<u>97</u>
Loss before taxation		(72,481)	(150,937)
Taxation credit	8	<u>–</u>	<u>141</u>
Loss before minority interests		(72,481)	(150,796)
Minority interests		<u>14</u>	<u>1,434</u>
Net loss for the year		<u>(72,467)</u>	<u>(149,362)</u>
Loss per share – basic and diluted	9	<u>HK(2.37) cents</u>	<u>HK(4.99) cents</u>

# CONSOLIDATED BALANCE SHEET

At 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	10	<b>70,989</b>	80,795
Goodwill	11	–	–
Development costs	12	<b>45,557</b>	55,506
Interests in associates	15	<b>86,274</b>	100,101
Interest in a jointly controlled entity	16	<b>5,757</b>	6,893
Investments in securities	17	<b>1,385</b>	4,585
		<u><b>209,962</b></u>	<u>247,880</u>
Current assets			
Inventories	18	<b>15,783</b>	13,847
Trade debtors	19	<b>10,979</b>	12,494
Other debtors, deposits and prepayments		<b>33,903</b>	36,480
Amounts due from related companies		<b>7,668</b>	6,199
Amount due from a jointly controlled entity		<b>82</b>	23
Taxation recoverable		–	398
Investments in securities	17	<b>65,948</b>	50,250
Deposits with banks and other financial institutions		<b>69,809</b>	15,835
		<u><b>204,172</b></u>	<u>135,526</u>
Current liabilities			
Trade creditors	20	<b>5,482</b>	6,047
Other creditors and accrued charges		<b>17,344</b>	14,044
Amounts due to related companies		<b>488</b>	975
Obligations under a finance lease			
– amount due within one year	21	<b>34</b>	34
		<u><b>23,348</b></u>	<u>21,100</u>
Net current assets		<u><b>180,824</b></u>	<u>114,426</u>
		<u><b>390,786</b></u>	<u>362,306</u>

	Notes	2004 HK\$'000	2003 HK\$'000
Capital and reserves			
Share capital	22	332,352	301,400
Reserves	25	<u>58,384</u>	<u>60,808</u>
		<b>390,736</b>	362,208
Non current liabilities			
Obligations under a finance lease			
– amount due after one year	21	50	84
Minority interests		<u>–</u>	<u>14</u>
		<b><u>390,786</u></b>	<b><u>362,306</u></b>

The financial statements on pages 24 to 67 were approved and authorised for issue by the Board of Directors on 22nd July, 2004 and are signed on its behalf by:

**Cheung Wai Tung**  
Director

**Wan Xiaolin**  
Director

# BALANCE SHEET

At 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Investments in subsidiaries	13	<b>80,709</b>	80,709
Amounts due from subsidiaries	14	<b>264,235</b>	278,780
Loans to associates	15	<b>3,970</b>	3,970
		<u><b>348,914</b></u>	<u>363,459</u>
Current assets			
Other debtors, deposits and prepayments		<b>3,444</b>	3,444
Bank balances		<b>42,291</b>	46
		<u><b>45,735</b></u>	<u>3,490</u>
Current liabilities			
Other creditors and accrued charges		<b>492</b>	364
		<u><b>45,243</b></u>	<u>3,126</u>
Net current assets			
		<u><b>394,157</b></u>	<u>366,585</u>
Capital and reserves			
Share capital	22	<b>332,352</b>	301,400
Reserves	25	<b>61,805</b>	65,185
		<u><b>394,157</b></u>	<u>366,585</u>

**Cheung Wai Tung**  
Director

**Wan Xiaolin**  
Director

For the year ended 31st March, 2004

	<b>Total equity</b> HK\$'000
At 1st April, 2002	450,510
Exchange gain on translation of overseas operations not recognised in the income statement	18
Exercise of warrants	61,139
Gain on expiry of warrants recognised in the income statement	(97)
Net loss for the year	<u>(149,362)</u>
At 31st March, 2003 and 1st April, 2003	362,208
Exchange gain 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 reserve	6,000
Net loss for the year	<u>(72,467)</u>
At 31st March, 2004	<u><u>390,736</u></u>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(72,481)	(150,937)
Adjustments for:		
Amortisation of development costs	18,706	18,431
Depreciation and amortisation of property, plant and equipment	10,957	10,363
Dividend income	(140)	(375)
Interest expenses	9	16
Interest income	(389)	(754)
Loss on disposal of property, plant and equipment	3	99
Write-down of inventories	2,500	1,078
Allowances for other debtors and deposits	1,123	25,975
Net realised (gain) loss on investments in securities	(1,960)	1,898
Net unrealised (gain) loss on other investments	(15,600)	5,565
Share of results of associates	9,514	8,518
Share of result of a jointly controlled entity	1,136	2,607
Gain on disposal of an associate	(1,995)	–
Loss on deemed disposal of an associate	1,548	–
Impairment loss recognised in respect of goodwill reserve	6,000	–
Amortisation of goodwill	–	220
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	4,389
Gain on disposal of subsidiaries	–	(16,328)
Gain on expiry of warrants	–	(97)
Allowances for loans to associates	–	28,000
Operating cash flows before movements in working capital	(41,069)	(61,332)
Increase in inventories	(4,436)	(14,405)
Decrease in trade debtors	1,515	2,930
Decrease (increase) in other debtors, deposits and prepayments	1,454	(6,823)
Increase in amounts due from related companies	(1,469)	(2,093)
Increase in amount due from a jointly controlled entity	(59)	(23)
Decrease in trade creditors	(565)	(1,377)
Increase in other creditors and accrued charges	3,300	1,541
Decrease in amounts due to related companies	(487)	(1,763)
NET CASH USED IN OPERATIONS	(41,816)	(83,345)
Interest received	389	754
Hong Kong Profits Tax refunded	398	204
NET CASH USED IN OPERATING ACTIVITIES	(41,029)	(82,387)

	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES		
Proceeds from disposal of an associate	14,001	–
Proceeds from disposal of investments in securities	5,062	13,047
Dividend received from investments in securities	140	375
Purchase of property, plant and equipment	(1,790)	(6,656)
Additions to development costs	(8,121)	(14,326)
Advances to associates	(9,241)	(11,225)
Disposal of subsidiaries	–	(2,318)
Proceeds from disposal of property, plant and equipment	–	23
Purchase of investments in securities	–	(1,200)
Acquisition of interest in an associate	–	(27,005)
Acquisition of interest in a jointly controlled entity	–	(9,500)
	<u>51</u>	<u>(58,785)</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Net proceeds from issue of shares	71,051	61,139
Net proceeds from issue of warrants	23,774	–
Repayment of obligations under a finance lease	(34)	(50)
Interest paid	(9)	(16)
	<u>94,782</u>	<u>61,073</u>
NET CASH FROM FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	53,804	(80,099)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
	15,835	95,916
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		
	170	18
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
	<u>69,809</u>	<u>15,835</u>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Deposits with banks and other financial institutions	<u>69,809</u>	<u>15,835</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

## 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

SSAP 12 (Revised)	Income Taxes
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The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this SSAP has had no material effect on the results for the current or prior accounting years.

## 3. 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 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.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

**Property, plant and equipment**

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

Depreciation is 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%

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.

### 3. 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 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**3. 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Taxation** (continued)

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.

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 currencies other than Hong Kong dollars 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**4. 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 computer operating system, processor, eTextbook and application software
Investment holding	–	investment holding

Segment information about these businesses is presented below:

**Income statement for the year ended 31st March, 2004**

	<b>Publishing</b>	<b>Chinese information infrastructure</b>	<b>Investment holding</b>	<b>Consolidated</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
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				<b>(56,269)</b>
Share of results of associates	–	<b>(7,654)</b>	<b>(1,860)</b>	<b>(9,514)</b>
Share of result of a jointly controlled entity	–	<b>(1,136)</b>	–	<b>(1,136)</b>
Gain on disposal of an associate	–	–	<b>1,995</b>	<b>1,995</b>
Loss on deemed disposal of an associate	–	<b>(1,548)</b>	–	<b>(1,548)</b>
Finance costs				<b>(9)</b>
Impairment loss recognised in respect of goodwill reserve	–	<b>(6,000)</b>	–	<u><b>(6,000)</b></u>
Loss before taxation				<b>(72,481)</b>
Taxation				<u>–</u>
Loss before minority interests				<b>(72,481)</b>
Minority interests				<u><b>14</b></u>
Net loss for the year				<u><u><b>(72,467)</b></u></u>

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

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

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

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated 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 other debtors and deposits	93	1,030	–	–	1,123
Impairment loss recognised in respect of goodwill reserve	–	6,000	–	–	6,000

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)****Business segments (continued)****Income statement for the year ended 31st March, 2003**

	<b>Publishing</b>	<b>Chinese information infrastructure</b>	<b>Investment holding</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>55,539</u>	<u>3,599</u>	<u>–</u>	<u>59,138</u>
Segment results	<u>3,480</u>	<u>(58,089)</u>	<u>(34,684)</u>	(89,293)
Unallocated corporate expenses				<u>(34,539)</u>
Loss from operations				(123,832)
Share of results of associates	–	(8,518)	–	(8,518)
Share of result of a jointly controlled entity	–	(2,607)	–	(2,607)
Gain on disposal of subsidiaries	–	16,328	–	16,328
Allowance for loans to associates	–	–	(28,000)	(28,000)
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	(1,389)	(3,000)	(4,389)
Gain on expiry of warrants				97
Finance costs				<u>(16)</u>
Loss before taxation				(150,937)
Taxation credit				<u>141</u>
Loss before minority interests				(150,796)
Minority interests				<u>1,434</u>
Net loss for the year				<u>(149,362)</u>



**4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)****Business segments (continued)****Balance sheet at 31st March, 2003**

	<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	<u>35,524</u>	<u>116,868</u>	<u>40,441</u>	192,833
Interests in associates				100,101
Interest in a jointly controlled entity				6,893
Unallocated corporate assets				<u>83,579</u>
Consolidated total assets				<u>383,406</u>
<b>LIABILITIES</b>				
Segment liabilities	<u>13,365</u>	<u>3,612</u>	<u>411</u>	17,388
Unallocated corporate liabilities				<u>3,796</u>
Consolidated total liabilities				<u>21,184</u>

**Other information for the year ended 31st March, 2003**

	<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	168	5,938	–	718	6,824
Additions of development costs	–	14,920	–	–	14,920
Amortisation of development costs	–	18,431	–	–	18,431
Depreciation and amortisation of property, plant and equipment	645	3,869	20	6,423	10,957
Amortisation of goodwill	–	220	–	–	220
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	1,389	3,000	–	4,389
Allowances for other debtors and deposits	<u>119</u>	<u>19,070</u>	<u>6,786</u>	<u>–</u>	<u>25,975</u>

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**4. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	<b>40,373</b>	56,715	<b>(39,345)</b>	(101,628)
PRC	<b>282</b>	2,423	<b>(16,924)</b>	(22,204)
	<b><u>40,655</u></b>	<u>59,138</u>	<b><u>(56,269)</u></b>	<u>(123,832)</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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	<b>404,694</b>	373,634	<b>3,411</b>	14,234
PRC	<b>9,440</b>	9,772	<b>7,136</b>	7,510
	<b><u>414,134</u></b>	<u>383,406</u>	<b><u>10,547</u></b>	<u>21,744</u>

## 5. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 7)	4,656	4,618
Other staff costs:		
– Retirement benefits schemes contributions	807	1,682
– Salaries and other benefits	24,759	38,363
	<u>30,222</u>	<u>44,663</u>
Less: Amount capitalised in the development costs	5,356	5,093
	<u>24,866</u>	<u>39,570</u>
Auditors' remuneration	870	950
Write-down of inventories	2,500	1,078
Depreciation and amortisation		
– Owned assets	11,568	10,942
– Asset held under a finance lease	25	15
	<u>11,593</u>	<u>10,957</u>
Less: Amount capitalised in the development costs	636	594
	<u>10,957</u>	<u>10,363</u>
Loss on disposal of property, plant and equipment	3	99
Operating lease rentals in respect of rented premises	1,278	1,216
Net realised (gain) loss on investments in securities	(1,960)	1,898
Net property rental income under operating leases, net of direct outgoings of HK\$142,000 (2003: HK\$142,000)	(2,973)	(2,299)
Interest income	(389)	(754)
Dividend income	(140)	(375)
	<u><u>(140)</u></u>	<u><u>(375)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**6. FINANCE COSTS**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest on a finance lease	<u>9</u>	<u>16</u>

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Directors' remuneration:		
Fees:		
Executive directors	<b>360</b>	360
Independent non-executive directors	<u>120</u>	<u>120</u>
	<b>480</b>	480
Other emoluments:		
Executive directors:		
Salaries and other benefits	<b>4,008</b>	3,958
Retirement benefits scheme contributions	<b>48</b>	60
Independent non-executive directors:		
Salaries and other benefits	<u>120</u>	<u>120</u>
	<b>4,176</b>	4,138
	<b>4,656</b>	4,618

Emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil – HK\$1,000,000	<b>5</b>	5
HK\$1,000,001 – HK\$1,500,000	<u>3</u>	<u>3</u>
	<b>8</b>	8

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

### (a) Directors' emoluments (continued)

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

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

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2003: three) were directors of the Company whose emoluments are included in the disclosure in note 7(a) above. The details of the remaining two (2003: two) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,201	2,616
Retirement benefits scheme contributions	24	24
	<u>2,225</u>	<u>2,640</u>

Their emoluments were within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	1	2
	<u>2</u>	<u>2</u>

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**8. TAXATION CREDIT**

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 has no assessable profits in other jurisdiction for the year.

The taxation credit represents the overprovision of Hong Kong Profits Tax in previous years.

Details of the unprovided deferred taxation are set out in note 26.

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Loss before taxation	<u><b>(72,481)</b></u>	<u>(150,937)</u>
Taxation at the domestic income tax rate of 17.5% (2003: 16%)	<b>(12,684)</b>	(24,150)
Tax effect of income not taxable for tax purpose	<b>(417)</b>	(2,733)
Tax effect of estimated tax losses not recognised	<b>9,916</b>	19,886
Tax effect of expenses not deductible for tax purpose	<b>3,185</b>	6,997
Overprovision of taxation in previous years	<u>–</u>	<u>141</u>
Taxation credit for the year	<u>–</u>	<u>141</u>

**9. 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\$72,467,000 (2003: HK\$149,362,000) and the weighted average number of 3,058,898,000 (2003: 2,993,968,000) ordinary shares in issue during the year.

The computation of diluted loss per share for both years did not assume the exercise of the Company's outstanding share options and warrants since their exercise would reduce net loss per share.

**10. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and building</b>	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Vehicles, furniture and equipment</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>					
<b>COST</b>					
At 1st April, 2003	128,400	32,044	15,289	60,679	236,412
Additions	–	62	–	1,728	1,790
Disposals	–	–	–	(17)	(17)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(17)</u>	<u>(17)</u>
At 31st March, 2004	<u>128,400</u>	<u>32,106</u>	<u>15,289</u>	<u>62,390</u>	<u>238,185</u>
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>					
At 1st April, 2003	79,416	24,527	11,962	39,712	155,617
Provided for the year	2,254	3,550	717	5,072	11,593
Eliminated on disposals	–	–	–	(14)	(14)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(14)</u>	<u>(14)</u>
At 31st March, 2004	<u>81,670</u>	<u>28,077</u>	<u>12,679</u>	<u>44,770</u>	<u>167,196</u>
<b>NET BOOK VALUES</b>					
At 31st March, 2004	<u>46,730</u>	<u>4,029</u>	<u>2,610</u>	<u>17,620</u>	<u>70,989</u>
At 31st March, 2003	<u>48,984</u>	<u>7,517</u>	<u>3,327</u>	<u>20,967</u>	<u>80,795</u>

The leasehold land and building of the Group at 31st March, 2004 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\$128,000 (2003: HK\$153,000).

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**11. GOODWILL**

	<b>THE GROUP</b> HK\$'000
<b>COST</b>	
At 1st April, 2003 and 31st March, 2004	8,000
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1st April, 2003 and 31st March, 2004	<u>8,000</u>
<b>NET BOOK VALUE</b>	
At 31st March, 2003 and 31st March, 2004	<u><u>–</u></u>

**12. DEVELOPMENT COSTS**

	<b>THE GROUP</b> HK\$'000
<b>COST</b>	
At 1st April, 2003	86,288
Additions	<u>8,757</u>
At 31st March, 2004	<u>95,045</u>
<b>AMORTISATION</b>	
At 1st April, 2003	30,782
Amortised for the year	<u>18,706</u>
At 31st March, 2004	<u>49,488</u>
<b>NET BOOK VALUES</b>	
At 31st March, 2004	<u><u>45,557</u></u>
At 31st March, 2003	<u><u>55,506</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.



## 13. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>374,246</b>	374,246
Less: Impairment loss recognised	<b>(293,537)</b>	(293,537)
	<b><u>80,709</u></b>	<u>80,709</u>

Particulars of the Company's principal subsidiaries as at 31st March, 2004 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
Chinese 2000 Online (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	100	Development of Chinese internetwork computer and products
Chinfosys Limited	Hong Kong	Ordinary HK\$2	100	Provision of information technology and system integration services
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

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

## 13. 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
Culture.com Technology Limited	Hong Kong	Ordinary HK\$2	100	Development of Chinese language computer processor
Culture.com Technology (BVI) Limited	BVI/Hong Kong	Ordinary US\$1	100	Investment holding
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 centre
Winway H.K. Investments Company Limited	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.

**14. AMOUNTS DUE FROM SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Amounts due from subsidiaries	<b>883,602</b>	831,147
Allowances for bad and doubtful debts	<b>(619,367)</b>	(552,367)
	<u><b>264,235</b></u>	<u>278,780</u>

The amounts are unsecured, interest free and in the opinion of the directors, will not be repaid within the next twelve months.

**15. INTERESTS IN ASSOCIATES**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>22,205</b>	45,273	–	–
Loans to associates	<b>92,069</b>	82,828	<b>3,970</b>	3,970
Allowances for bad and doubtful debts	<b>(28,000)</b>	(28,000)	–	–
	<u><b>86,274</b></u>	<u>100,101</u>	<u><b>3,970</b></u>	<u>3,970</u>
Market value of listed shares	<u><b>31,500</b></u>	<u>9,000</u>	<u>–</u>	<u>–</u>

The loans are unsecured, interest free and in the opinion of the directors, will not be repaid within the next twelve months.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

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

Particulars of the Group's principal associates as at 31st March, 2004 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 agencies
Q9 Technology Holdings Limited (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

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

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.

**16. INTEREST IN A JOINTLY CONTROLLED ENTITY**

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>1,878</b>	2,626
Premium on formation of a jointly controlled entity	<b>3,879</b>	4,267
	<u><b>5,757</b></u>	<u>6,893</u>

As at 31st March, 2004, the Group had interests in the following jointly controlled entity:

<b>Name of entity</b>	<b>Form of business structure</b>	<b>Country of registration/ operation</b>	<b>Proportion of nominal value of registered capital held by the Group</b>	<b>Principal activities</b>
			%	
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

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

	HK\$'000
<b>COST</b>	
At 1st April, 2003 and 31st March, 2004	<u>4,655</u>
<b>AMORTISATION</b>	
At 1st April, 2003	388
Amortised for the year	<u>388</u>
At 31st March, 2004	<u>776</u>
<b>CARRYING AMOUNTS</b>	
At 31st March, 2004	<u><u>3,879</u></u>
At 31st March, 2003	<u><u>4,267</u></u>

The premium on acquisition 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**17. INVESTMENTS IN SECURITIES**

	Investment securities		Other investments		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
Non-current assets						
Unlisted securities –						
Equity securities	<b>1,385</b>	3,385	–	–	<b>1,385</b>	3,385
Debt securities	–	1,200	–	–	–	1,200
	<b>1,385</b>	4,585	–	–	<b>1,385</b>	4,585
Current assets						
Listed equity securities –						
Hong Kong	–	–	<b>63,714</b>	50,168	<b>63,714</b>	50,168
Overseas	–	–	<b>434</b>	82	<b>434</b>	82
	–	–	<b>64,148</b>	50,250	<b>64,148</b>	50,250
Unlisted debt securities	–	–	<b>1,800</b>	–	<b>1,800</b>	–
	–	–	<b>65,948</b>	50,250	<b>65,948</b>	50,250
	<b>1,385</b>	4,585	<b>65,948</b>	50,250	<b>67,333</b>	54,835
Market value of						
listed securities	–	–	<b>64,148</b>	50,250	<b>64,148</b>	50,250

**18. INVENTORIES**

The inventories of the Group represent finished goods which included an amount of HK\$14,286,000 (2003: HK\$8,395,000) carried at net realisable value at the balance sheet date.

**19. TRADE DEBTORS**

The Group allows a credit period of 60-90 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>5,979</b>	6,422
61 – 90 days	<b>582</b>	916
Over 90 days	<b>4,418</b>	5,156
	<u><b>10,979</b></u>	<u>12,494</u>

**20. TRADE CREDITORS**

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

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>4,475</b>	3,253
61 – 90 days	<b>166</b>	240
Over 90 days	<b>841</b>	2,554
	<u><b>5,482</b></u>	<u>6,047</u>

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**21. OBLIGATIONS UNDER A FINANCE LEASE**

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under a finance lease:				
Within one year	43	43	34	34
In the second to fifth years inclusive	64	106	50	84
	<u>107</u>	<u>149</u>	<u>84</u>	<u>118</u>
Less: Future finance charges	(23)	(31)	–	–
Present value of lease obligations	<u>84</u>	<u>118</u>	<u>84</u>	<u>118</u>
Less: Amount due from settlement within one year shown under current liabilities			(34)	(34)
Amount due after one year			<u>50</u>	<u>84</u>

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



## 22. SHARE CAPITAL

	Number of shares		Share capital	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1st April and 31st March	<u>4,000,000</u>	<u>4,000,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:				
At 1st April	3,014,000	2,787,560	301,400	278,756
Exercise of share options	199,800	–	19,980	–
Exercise of warrants	<u>109,720</u>	<u>226,440</u>	<u>10,972</u>	<u>22,644</u>
At 31st March	<u>3,323,520</u>	<u>3,014,000</u>	<u>332,352</u>	<u>301,400</u>

## 23. 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 was intended to be used for general working capital of the Group.

During the year, registered holders of 109,720,000 units of outstanding 2005 warrants exercised their rights to subscribe for 109,720,000 shares in the Company at HK\$0.165 per share.

On 31st March, 2004, the Company had 320,280,000 outstanding 2005 Warrants conferring rights to subscribe up to approximately HK\$52,846,000 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, 2004, result in the issue of 320,280,000 additional shares of HK\$0.10 each in the Company.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**24. 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.

## 24. 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. At 31st March, 2004, the total number of shares of the Company available for issue under the Company’s New Option Scheme was 1,399,964 (2003: 301,399,964) shares, representing 0.04% (2003: 10% ) 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**24. 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 exercisable 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.

**24. 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 per share	Number of share options							
					Outstanding at 1.4.2002	Transferred during 2002/03	Outstanding at 31.3.2003 and 1.4.2003	Granted during 2003/04	Exercised during 2003/04 (note)	Lapsed during 2003/04	Outstanding at 31.3.2004	
				HK\$								
Directors	Old Option Scheme	27.8.1999 3.3.2000	27.8.1999 – 26.8.2009 3.3.2000 – 2.3.2010	0.264	12,000,000	–	12,000,000	–	–	–	12,000,000	
				1.680	10,065,000	1,000,000	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	
					22,065,000	1,000,000	23,065,000	11,000,000	–	–	34,065,000	
Employees	Old Option Scheme	3.3.2000	3.3.2000 – 2.3.2010	1.680	28,535,000	(1,000,000)	27,535,000	–	–	(2,500,000)	25,035,000	
				0.265	–	–	–	173,000,000	(124,800,000)	–	48,200,000	
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	173,000,000	(124,800,000)	–	48,200,000	
					28,535,000	(1,000,000)	27,535,000	173,000,000	(124,800,000)	(2,500,000)	73,235,000	
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	116,000,000	(75,000,000)	–	41,000,000	
					50,600,000	–	50,600,000	300,000,000	(199,800,000)	(2,500,000)	148,300,000	

*Note:* The price of the Company’s shares as at immediately preceding the date of the exercise of the share options (being the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their respective exercise dates) was HK\$0.578.

Total consideration received during the year from directors, employees and other participants for taking up the share options granted is amounted to HK\$98 (2003: nil).

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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

## 25. RESERVES

	Share premium HK\$'000	Contribution surplus HK\$'000	Goodwill 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, 2002	572,828	171,671	(62,948)	20,287	446	(325)	(530,205)	171,754
Exchange loss on translation of overseas operations not recognised in the income statement	-	-	-	-	-	18	-	18
Exercise of warrants	38,495	-	-	-	-	-	-	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	-	-	(18,690)	-	-	-	-
Gain on expiry of warrants	-	-	-	(97)	-	-	-	(97)
Net loss for the year	-	-	-	-	-	-	(149,362)	(149,362)
At 31st March, 2003	630,013	171,671	(62,948)	1,500	446	(307)	(679,567)	60,808
Exchange gain 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	<u>676,178</u>	<u>171,671</u>	<u>(56,948)</u>	<u>19,208</u>	<u>446</u>	<u>(137)</u>	<u>(752,034)</u>	<u>58,384</u>
Attributable to:								
Company and subsidiaries	676,178	171,671	(56,948)	17,708	446	(137)	(724,801)	84,117
Associates	-	-	-	1,500	-	-	(27,233)	(25,733)
	<u>676,178</u>	<u>171,671</u>	<u>(56,948)</u>	<u>19,208</u>	<u>446</u>	<u>(137)</u>	<u>(752,034)</u>	<u>58,384</u>

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

**25. 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, 2002	572,828	262,143	18,787	446	(676,539)	177,665
Exercise of warrants	38,495	–	–	–	–	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	–	(18,690)	–	–	–
Gain on expiry of warrants	–	–	(97)	–	–	(97)
Net loss for the year	–	–	–	–	(150,878)	(150,878)
At 31st March, 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	676,178	262,143	17,708	446	(894,670)	61,805

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**25. RESERVES (continued)**

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.

**26. 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, 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	1,825	(1,825)	–
	<hr/>	<hr/>	<hr/>
– as restated	1,825	(1,825)	–
Charge (credit) to income statement for the year	568	(568)	–
Release upon disposal of subsidiaries	(301)	301	–
	<hr/>	<hr/>	<hr/>
At 31st March, 2003 and 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)	–
	<hr/>	<hr/>	<hr/>
At 31st March, 2004	<u>2,052</u>	<u>(2,052)</u>	<u>–</u>



## 26. 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 SSAP 12 (Revised).

At 31st March, 2004, the Group had unused estimated tax losses of HK\$360,988,000 (2003: HK\$304,325,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$11,726,000 (2003: HK\$13,075,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$349,262,000 (2003: HK\$291,250,000) 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.

## 27. MAJOR NON-CASH TRANSACTIONS

- (i) On 23rd July, 2003, the Group entered into arrangements with Transmeta Corporation ("Transmeta"), eForce Holdings Limited ("eForce") and C2L for the commercial exploitation of Midori Operating System pursuant to which the Group agreed to dispose of and C2L agreed to acquire the 24,500 shares of US\$1.00 each in the capital of Chinese 2000 Holdings Limited. The consideration for the disposal was HK\$88,200,000 which was satisfied by the allotment and issue of 3,675 shares of C2L, representing approximately 40.83% of the issued share capital of C2L as enlarged by the allotment and issue of the shares of C2L to the Group, eForce and Transmeta.
- (ii) During the year ended 31st March, 2003, pursuant to an agreement entered into between the Group and the eForce Group, the Group disposed of its 51% equity interest in the share capital of Chinese 2000 Holdings Limited to the eForce Group for a consideration of HK\$38,250,000. The consideration was satisfied by the issue and allotment of 170,000,000 new ordinary shares of eForce at HK\$0.225 per share.

Upon completion of the transaction, 17,000,000 shares of eForce was paid to an independent third party as consideration for professional services rendered by that independent third party in respect of the above transaction.

- (iii) During the year ended 31st March, 2003, the Group entered into finance lease arrangements in respect of assets with a total capital value of the inception of the finance leases of HK\$168,000.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**28. 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 contribution 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\$855,000 (2003: HK\$1,742,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

**29. 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		Promotional fee paid to related companies		Amounts due from related companies		Amounts due to related companies	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	<u>122</u>	<u>-</u>	<u>730</u>	<u>634</u>	<u>120</u>	<u>30</u>	<u>1,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subsidiaries of a shareholder	<u>-</u>	<u>-</u>	<u>396</u>	<u>562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,668</u>	<u>6,199</u>	<u>488</u>	<u>975</u>

All the above transactions were carried out at terms mutually agreed by the relevant parties on the basis of estimated market value.

In addition, the Group provided a guarantee to Transmeta in respect of the payment obligations of service fees of China Ever Limited, a wholly-owned subsidiary of C2L, the associate of the Group. 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 have no fixed repayment terms.

### 30. OPERATING LEASE COMMITMENTS

#### The Group as lessee

At 31st March, 2004, the Group had commitments for future minimum lease payment in respect of rented premises which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	552	727
In the second to fifth year inclusive	210	161
	<u>762</u>	<u>888</u>

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\$3,115,000 (2003: HK\$2,441,000).

At 31st March, 2004, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	2,372	1,894
In the second to fifth year inclusive	1,412	1,363
	<u>3,784</u>	<u>3,257</u>

Lease is negotiated for an average term of two years.

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

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

**31. CONTINGENT LIABILITIES****THE GROUP AND THE COMPANY**

- (a) At 31st March, 2004, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2003: HK\$11,967,000) in relation to a guarantee given to a plaintiff. Based on the advice of its legal adviser, the directors are of the view that the Company has reasonable grounds to defence. Accordingly, no provision for this amount has been provided in the financial statements.
- (b) During the year, the Company and 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, a wholly-owned subsidiary of C2L, the associate of the Group. 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.

**32. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the financial statement in respect of the capital expenditure on the development costs	<u><b>1,404</b></u>	<u>—</u>

**33. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation.

# 68 FINANCIAL SUMMARY

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,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>RESULTS</b>					
Turnover	161,487	88,625	64,338	59,138	40,655
(Loss) profit before taxation	128	(112,001)	(197,640)	(150,937)	(72,481)
Taxation credit	986	110	189	141	–
(Loss) profit after taxation	1,114	(111,891)	(197,451)	(150,796)	(72,481)
Minority interests	1,261	–	1,888	1,434	14
(Loss) profit attributable to shareholders	2,375	(111,891)	(195,563)	(149,362)	(72,467)
<b>As at 31st March,</b>					
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Property, plant and equipment	96,909	103,255	86,272	80,795	70,989
Goodwill	–	–	3,055	–	–
Development costs	12,706	25,275	81,375	55,506	45,557
Interests in associates	3,347	72,075	87,045	100,101	86,274
Interests in a jointly controlled entity	–	–	–	6,893	5,757
Investments in securities	10,761	37,280	3,385	4,585	1,385
Deposits for acquisition of investments	24,000	78,063	19,900	–	–
Net current assets	497,950	279,260	170,926	114,426	180,824
	645,673	595,208	451,958	362,306	390,786
Share capital	253,992	271,016	278,756	301,400	332,352
Reserves	391,681	324,192	171,754	60,808	58,384
Shareholders' funds	645,673	595,208	450,510	362,208	390,736
Minority interests	–	–	1,448	14	–
Long-term liabilities	–	–	–	84	50
	645,673	595,208	451,958	362,306	390,786