
IMPORTANT

If you are in any doubt about this prospectus, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, together with the documents specified under the paragraph headed "Documents delivered to the Registrars of Companies in Hong Kong and in Bermuda" in Appendix II, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) of Hong Kong. A copy of this prospectus having attached thereto a copy of the application form for the Warrants, has been filed or will, as soon as reasonably practicable, be filed with the Registrar of Companies in Bermuda in accordance with the requirements of the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Securities Clearing Company Limited ("HKSCC") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 343)

**PRIVATE PLACING OF UP TO 660,000,000 LISTED WARRANTS
BEING WARRANTS IN REGISTERED FORM TO SUBSCRIBE FOR
SHARES IN THE CAPITAL OF CULTURECOM HOLDINGS LIMITED
AT AN ISSUE PRICE OF HK\$0.038 PER WARRANT**

Placing Agent



KINGSTON SECURITIES LIMITED

Placing Manager



KINGSTON CORPORATE FINANCE LIMITED

This prospectus is published for the purpose of obtaining the listing on the Stock Exchange of all warrants to be issued by Culturecom Holdings Limited and contains particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to Culturecom Holdings Limited and its subsidiaries and such warrants.

Application has been made to the Stock Exchange for the listing of and permission to deal in the warrants to be issued by Culturecom Holdings Limited and the shares of Culturecom Holdings Limited falling to be issued on exercise of the subscription rights attaching to such warrants. Commencement of dealings in the warrants are expected to be on 3 October 2005.

It should be noted that the placing agreement (the "Placing Agreement") in relation to the placing of warrants to be issued by Culturecom Holdings Limited contains provisions entitling Kingston Securities Limited to terminate its obligations thereunder on the occurrence of certain events, which results in a material adverse change in the political, economic or stock market conditions in Hong Kong in the context of the placing of warrants and which materially affects the success of the placing of warrants or any breach of warranties and representations on the part of Culturecom Holdings Limited under the Placing Agreement which is material in the context of the placing of warrants prior to 5:30 p.m. on the date of completion of the Placing Agreement. If the obligations of Kingston Securities Limited under the Placing Agreement are so terminated, the placing of warrants will not proceed.

Subject to the granting of the listing of and permission to deal in the warrants to be issued by Culturecom Holdings Limited and the shares of Culturecom Holdings Limited falling to be issued on the exercise of subscription rights attached to such warrants on the Stock Exchange, as well as the compliance with the stock admission requirements of HKSCC, the warrants will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from the commencement date of dealings in the warrants on the Stock Exchange, or, under contingent situation, such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

* for identification purpose only

20 September 2005

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ATTENTION

THIS PROSPECTUS IS ALSO SENT OR DELIVERED TO THE SHAREHOLDERS OF THE COMPANY FOR INFORMATION PURPOSES ONLY. SHAREHOLDERS OF THE COMPANY SHOULD NOTE THAT THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR INVITATION ON BEHALF OF THE COMPANY BY THE PLACING AGENT, THE PLACING MANAGER OR ANY OTHER PARTY INVOLVED IN THE PLACING TO APPLY FOR OR TO TAKE UP ANY WARRANTS, SHARES OR ANY OTHER SECURITIES OF THE COMPANY.

PRELIMINARY

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and the Warrants. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

The Bermuda Monetary Authority has given its general consent to the issue of securities of the Company out of the authorised but unissued share capital of the Company, from time to time determined by the Company provided that the Shares are listed on the Stock Exchange or any other appointed stock exchange, which is HK\$226,602,036 as at the Latest Practicable Date and covers the issue of the Warrants and the Shares falling to be issued upon the exercise of Subscription Rights. In giving such consent and in accepting this prospectus for filing, the Bermuda Monetary Authority and the Registrar of Companies in Bermuda accept no responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed herein.

This prospectus is published in connection with the Placing, being an offer of Warrants carrying rights to subscribe for Shares, subject to the terms and conditions set out or referred to herein.

Each potential purchaser of the Warrants should determine the relevance of the information contained in this prospectus and any purchase of the Warrants should be based on such information as each purchaser deems necessary. The Placing Agent and the Placing Manager do not undertake to review the financial condition or affairs of the Company during the term of the Warrants or to advise any investor or potential investor in the Warrants of any information which come to their attention.

No action has been taken in any jurisdiction other than Hong Kong and Bermuda to permit an offering of the Warrants or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation except under such circumstances that will result in compliance with any applicable laws or regulations.

No person has been authorised to give any information or to make any representation not contained in this prospectus in connection with the Placing or the Warrants and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Placing Agent, the Placing Manager or any other party involved in the Placing. Neither the delivery of this prospectus nor any issue or sale of any Warrants shall under any circumstances create any implication that there has been no change in the affairs of the Company or any of its subsidiaries since the date hereof. This prospectus does not constitute, and may not be used for the purpose of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Warrants or the distribution of this prospectus in any jurisdiction where any such action is required.

The Stock Exchange and HKSCC have made no assessment of, nor does either of them take any responsibility for, the financial soundness of the Company or merits of investing in the Warrants, nor has either of them verified the accuracy or the truthfulness of statements made or opinions expressed in this prospectus.

PRELIMINARY

The distribution of this prospectus and the offering, issue and delivery of the Warrants in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus have come are required by the Company to inform themselves of and to observe, any such restrictions.

Dealings in the Warrants registered on the Company's register of Warrantholders will be subject to Hong Kong stamp duty. The SFC charges a transaction levy of 0.005%, investor compensation levy of 0.002% and the Stock Exchange charges a trading fee of 0.005% in respect of each transaction effected on the Stock Exchange, payable by each of the seller and the buyer and calculated on the value of the consideration for the relevant securities. In addition, member brokers charge brokerage to both buyers and sellers which is required to be no less than 1% of the value of the purchase or sale (calculated on the value of the relevant securities).

Application has been made to the Stock Exchange for the listing of and permission to deal in the Warrants and the Shares falling to be issued on the exercise of Subscription Rights on the Stock Exchange. No Shares or Warrants are listed or dealt in on any other stock exchange and the Company is not currently seeking to list the Shares or Warrants on any other stock exchange.

Subject to the granting of the listing of and permission to deal in the Warrants and the Shares which may fall to be issued on the exercise of Subscription Rights on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Warrants and Shares which may fall to be issued on the exercise of Subscription Rights will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Warrants on the Stock Exchange or, under contingent situation, such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Potential Warrantholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding the Warrants or exercising their rights thereunder. It is emphasised that none of the Company, the Directors or any other party involved in the Placing accepts responsibility for any tax effects on, or liabilities of, the Warrantholders resulting from the subscription, purchase, holding or disposal of, the Warrants and/or exercise of any rights attaching to the Warrants.

EACH SUBSCRIBER OR PURCHASER OF THE WARRANTS MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT SUBSCRIBES, PURCHASES, OFFERS OR SELLS THE WARRANTS OR POSSESSES OR DISTRIBUTES THIS PROSPECTUS AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE SUBSCRIPTION, PURCHASE, OFFER OR SALE OF THE WARRANTS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH SUBSCRIPTION, PURCHASE, OFFER OR SALE, AND NONE OF THE COMPANY, THE PLACING AGENT, THE PLACING MANAGER AND ANY OTHER PERSONS INVOLVED IN THE PLACING SHALL HAVE ANY RESPONSIBILITY THEREFOR.

EXPECTED TIMETABLE

2005

Formal notice	Tuesday, 20 September
Despatch of the prospectus	Tuesday, 20 September
Latest time for submitting the application forms for the Warrants accompanied by appropriate remittances	4:00 p.m. on Friday, 23 September
Latest time for termination of the Placing Agreement.....	5:30 p.m. on Wednesday, 28 September
Warrant certificates to be despatched on or before	Thursday, 29 September
Announcement of the level of indication of interest in the Placing to be published in China Daily (in English) and Hong Kong Economic Journal (in Chinese) on or before	Thursday, 29 September
Dealings in the Warrants on the Stock Exchange to commence on	Monday, 3 October

DEFINITIONS

The following definitions shall apply throughout this prospectus unless the context otherwise requires:

“Acquired Crusoe Assets and Technology”	the assets and technology to be acquired by Culture.com Technology pursuant to the Asset Purchase Agreement
“Acquisition”	the acquisition of the Acquired Crusoe Assets and Technology by Culture.com Technology pursuant to the Asset Purchase Agreement
“Assets Purchase Agreement”	the asset purchase agreement entered into between Culture.com Technology and Transmeta dated 27 May 2005 in respect of the Acquisition
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chinese Academy of Sciences”	one of the leading academic institutions and comprehensive research and development centres in natural science, technological science and high-tech innovation in the PRC
“Chinese Character DNA technology”	a technology that breaks down Chinese characters into basic components like English alphabets
“Chinese embedded devices”	computing devices embedded with Chinese Character DNA technology
“Chinese network computer”	network computer embedded with Chinese Character DNA technology
“Chinese Voice Engine (CVE)”	Chinese voice processing technology
“Companies Act”	Companies Act of 1981 of Bermuda (as amended)
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Culturecom Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Placing
“Conceptual Judgment System Technology”	a computing technology designed to recognise the concept within human language
“CPU”	central processing unit

DEFINITIONS

“Crusoe Microprocessor”	the brand name of a software-based microprocessor and its variant within the same product family
“Culture.com Technology”	Culture.com Technology Limited, a wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Efficeon Microprocessor”	the 130nm software-based microprocessor designed for 256 bits instruction and its variants, being one of the multiple versions of the same microprocessor product line under the brand name of Efficeon
“eTextbook”	electronic textbook
“eTown (Digital web-town)”	an integrated portal designed to be deployed in smaller towns in the PRC suitable for non-sophisticated computer users
“Greater China”	the PRC, including Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Instrument”	a separate instrument to be executed by the Company by way of a deed poll containing terms of the Warrants including the adjustment mechanisms of the initial subscription price for Shares
“Latest Practicable Date”	14 September 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Licence Agreement”	the licence agreement entered into between Culture.com Technology and Transmeta dated 27 May 2005
“Linux Operating System”	a computer operating system originated by Mr. Linux Torvalds, the source code of which is opened to users free of charge
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Manufacturing Tools”	(i) the documentation, reference designs, tools and technical manufacturing guidelines for the Crusoe Microprocessor; and (ii) the Crusoe Microprocessor design information and technical documentation, as set out in the Licence Agreement
“Midori Linux Operation System”	one form of Linux Operating System designed for handheld and simple computing devices
“Mr. Chu”	Mr. Chu Bong Foo, the Vice-Chairman of the Company
“Netease”	one of the Internet, online game and wireless value-added services providers in the PRC
“Placing”	the placing of up to 660,000,000 listed Warrants pursuant to the Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation under the SFO to carry on business in type 1 regulated activities
“Placing Agreement”	the conditional placing agreement entered into between the Company and the Placing Agent dated 18 August 2005 in relation to the Placing
“Placing Manager”	Kingston Corporate Finance Limited, a licensed corporation under the SFO to carry on business in type 6 regulated activities
“Placing Price”	HK\$0.038, being the issue price per Warrant payable in full on application under the Placing
“PRC”	the People’s Republic of China which for the purpose of prospectus shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China
“Red Office 2000 Linux”	a general office use application with similar functionality to Microsoft’s “Office” based on Linux Operating System
“Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares(s)
“Share Option Schemes”	share option schemes of the Company adopted on 15 June 1993 and 21 August 2002 respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Date”	the date on which any of the Subscription Rights are duly exercised
“Subscription Form”	the subscription form contained in each Warrant certificate in relation to the exercise of the Subscription Rights
“Subscription Period”	the two-year period commencing from the date on which dealings in the Warrants on the Stock Exchange shall commence, which is expected to be 3 October 2005 and expiring on 2 October 2007, both days inclusive
“Subscription Price”	the initial subscription price of HK\$0.172 per Share (subject to adjustments)
“Subscription Rights”	the subscription rights attaching to the Warrants which may be exercised by the Warrantholders
“Tax/POS terminal”	a point-of sales terminal designed for use in the PRC in compliance with PRC tax law and regulations
“Tencent QQ”	one of the first Internet instant messaging software, Internet and mobile value-added service providers with a focus on instant messaging and related value-added services in the PRC
“Transmeta Corporation”	Transmeta Corporation, a Delaware (USA) corporation whose shares are listed on the NASDAQ, and an Independent Third Party
“V-Dragon Series”	the brand name of the Group’s series of CPU
“Warrant(s)”	warrant(s) of the Company conferring rights in registered form to subscribe for Share(s) at an initial subscription price of HK\$0.172 per Share (subject to adjustments) during the Subscription Period
“Warrantholder(s)”	holder(s) of Warrant(s)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

SUMMARY OF THE PLACING

The information in this section is only a summary of the Placing and should be read in conjunction with, and is qualified by reference to, the other information set out in this prospectus:

Issuer:	Culturecom Holdings Limited
Placing Agent:	Kingston Securities Limited
The Warrants:	<p>660,000,000 Warrants will be allotted and issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 24 August 2004 to allot and issue Shares.</p> <p>As at the date of the announcement of the Company dated 19 August 2005 in relation to the Placing and as at the Latest Practicable Date, the 660,000,000 Shares to which the 660,000,000 Warrants relate upon full exercise, represented approximately 17.67% of the then existing issued share capital of the Company and approximately 15.02% of the issued share capital as enlarged by the allotment and issue of the 660,000,000 Shares to which the Warrants relate, which Shares will rank <i>pari passu</i> in all respects with the Shares in issue on the relevant Subscription Date.</p> <p>Except for the Shares to be allotted and issued upon exercise of the options granted or to be granted under the Share Option Schemes, the Company has no other equity securities which remain to be issued on exercise of any other subscription rights.</p>
Placing Price:	HK\$0.038 per Warrant
Placing:	On a best endeavours basis
Conditions of the Placing:	The Placing is conditional on the satisfaction of the conditions set out in the paragraph headed “Conditions of the Placing” in the section headed “The Placing” in this prospectus.
Use of proceeds:	The net proceeds of the Placing of approximately HK\$24.1 million will be used for general working capital of the Group.
Board lot:	The board lot for trading in the Warrants is 100,000 units conferring the rights to subscribe for 100,000 Shares at HK\$17,200 in cash on the basis of an initial Subscription Price of HK\$0.172 per Share, subject to adjustments.

SUMMARY OF THE PLACING

Form: The 660,000,000 Warrants will be in registered form, giving the holders thereof the rights to subscribe up to HK\$113,520,000 in aggregate in cash for a total of 660,000,000 Shares at the Subscription Price during the two-year period commencing from the date on which dealings in the Warrants on the Stock Exchange shall commence, which is expected to be 3 October 2005 and expiring on 2 October 2007, both days inclusive. Such rights to subscribe will be contained in and governed by the Instrument and the Warrant certificates.

Warrantholders will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions and the provisions of the Instrument, copies of which will be available at the principal place of business for the time being of the Company in Hong Kong.

Denomination: The Warrants are represented by certificates in units of Subscription Price of HK\$0.172 each or integral multiples in respect thereof.

Exercise: The Warrants are exercisable only in amounts of HK\$0.172 or in integral multiples thereof. A Warrant may only be exercised by the delivery of a completed and signed Subscription Form together with the relevant Warrant certificate to the Registrar and together with a remittance for the aggregate Subscription Price for the Subscription Rights exercised.

Subscription price: HK\$0.172 per Share (subject to adjustments in accordance with the provisions of the Instrument).

The Subscription Price of HK\$0.172 per Share represented: (i) a discount of approximately 14.43% to the closing price of HK\$0.201 per Share as quoted on the Stock Exchange on 18 August 2005, being the date of the Placing Agreement; (ii) a discount of approximately 17.7% to the average closing price of HK\$0.209 per Share as quoted on the Stock Exchange for the last five trading days up to and including 18 August 2005, being the date of the Placing Agreement; and (iii) a discount of approximately 20.38% to the closing price of HK\$0.216 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

SUMMARY OF THE PLACING

The aggregate of the Placing Price and the initial Subscription Price of HK\$0.21 per Share represented (i) a premium of approximately 4.48% over the closing price of HK\$0.201 per Share as quoted on the Stock Exchange on 18 August 2005, being the date of the Placing Agreement; (ii) a premium of approximately 0.48% over the average closing price of HK\$0.209 per Share as quoted on the Stock Exchange for the last five trading days up to and including 18 August 2005, being the date of the Placing Agreement; and (iii) a discount of approximately 2.78% to the closing price of HK\$0.216 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Subscription period:

The two-year period commencing from the date on which dealings in the Warrants on the Stock Exchange shall commence, which is expected to be 3 October 2005 and expiring on 2 October 2007, both days inclusive.

The Shares falling to be issued upon the exercise of Subscription Rights will, upon allotment and issue, rank *pari passu* in all respects with the existing Shares in issue on the relevant Subscription Date, save for any right or entitlement to dividends or other rights or distributions the record date of which precedes the relevant Subscription Date.

Transfers of Warrants:

The Subscription Rights conferred by the Warrants are transferable in whole amounts or integral multiples of initially HK\$0.172 of Subscription Rights.

Warrants may only be transferred by delivery of a transfer form for registration to the Registrar in such form as may from time to time be in use and obtainable from the Registrar together with the relevant Warrant certificate(s). Where such dealings takes place on the Stock Exchange, delivery must currently be made at the end of the second trading day after the dealings has been entered into.

Currently, Hong Kong stamp duty is chargeable on contract notes evidencing sale or purchase of Warrants at a rate of HK\$2.00 per HK\$1,000 or part thereof (of which HK\$1.00 per HK\$1,000 is payable by the seller and HK\$1.00 per HK\$1,000 is payable by the purchaser) by reference to the value of the consideration or the market value, whichever is higher.

SUMMARY OF THE PLACING

Listing and dealing:	<p>Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the 660,000,000 Warrants and the Shares which may fall to be issued upon the exercise of the Subscription Rights on the Stock Exchange. It is expected that dealings in Warrants on the Stock Exchange will commence on 3 October 2005.</p> <p>Subject to the granting of the listing of and permission to deal in the 660,000,000 Warrants and the Shares which may fall to be issued upon the exercise of the Subscription Rights on the Stock Exchange, as well as compliance with the stock admission requirements of HKSCC, the Warrants and the Shares which may fall to be issued upon the exercise of Subscription Rights will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in Warrants on the Stock Exchange or, under contingent situation, such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.</p>
Expected market capitalisation:	<p>Based on the Placing Price, the expected market capitalisation of the 660,000,000 Warrants upon listing will be approximately HK\$25,080,000.</p>
Governing law:	<p>The laws of Hong Kong.</p>
Registrar:	<p>Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.</p>

**DIRECTORS, CORPORATE INFORMATION AND
OTHER PARTIES INVOLVED IN THE PLACING**

Executive Directors:

Name	Address	Nationality
Mr. Cheung Wai Tung (<i>Chairman</i>)	Flat C, 26th Floor Block 7, Grand Pacific Heights Tai Lam Chung Castle Peak Road New Territories Hong Kong	Chinese
Mr. Chu Bong Foo (<i>Vice-Chairman</i>)	1 Floor, No.1, Lane 121 Sanming Road, Section 2 Yangmei, Taoyuan 326 Taiwan	Taiwanese
Mr. Cheung Kam Shing, Terry (<i>Managing Director</i>)	9B, Block 4, Cavendish Heights 33 Perkins Road Hong Kong	PRC-HK
Mr. Henry Chang Manayan	1941 Grand Teton Drive Milpitas California 95035 United States of America	American
Mr. Wan Xiaolin	Flat C, 2/F., Yat Wah Mansion Lei King Wan 41 Tai Hong Street Hong Kong	Chinese

Independent Non-Executive Directors:

Name	Address	Nationality
Mr. Lai Man To	Flat A, 37 Floor, Block 4 Cheerful Garden 23 Siu Sai Wan Road Chai Wan Hong Kong	Canadian
Mr. Wang Tiao Chun	1F, No. 5, Alley 68 Lane 21, Wenhui St., Neihu Taipei 114 Taiwan	Taiwanese
Mr. Joseph Lee Chennault	752 Big Bend Drive Pacifica, CA 94044 United States of America	American

**DIRECTORS, CORPORATE INFORMATION AND
OTHER PARTIES INVOLVED IN THE PLACING**

Authorised representatives:	Mr. Cheung Wai Tung Mr. Cheung Kam Shing, Terry
Company secretary and qualified accountant:	Mr. Cheung Wai Keung, Cecil, <i>ACCA, CPA</i>
Auditors:	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Registered office:	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Principal place of business in Hong Kong:	12 Floor Culturecom Centre 47 Hung To Road Kwun Tong Kowloon Hong Kong
Principal share registrar and transfer office in Bermuda:	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Branch share registrar, warrant registrar and transfer office in Hong Kong:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17 Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Placing Agent:	Kingston Securities Limited Suite 2801, 28/F One International Finance Centre 1 Harbour View Street Central Hong Kong

**DIRECTORS, CORPORATE INFORMATION AND
OTHER PARTIES INVOLVED IN THE PLACING**

Placing Manager:

Kingston Corporate Finance Limited
Suite 2801, 28/F
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Legal advisers to the Company:

on Hong Kong law
Michael Li & Co
14/F., Printing House
6 Duddell Street
Central
Hong Kong

on Bermuda law
Appleby Spurling Hunter
5511 The Center
99 Queen's Road Central
Hong Kong

Principal bankers:

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong)
Bank of China Tower
1 Garden Road
Hong Kong

Hang Seng Bank
83 Des Voeux Road Central
Hong Kong

THE PLACING

1. REASONS FOR THE PLACING

The Directors consider that the Placing is an ideal opportunity to raise further capital for the Company. In particular, (i) it does not have an instant dilution effect on the shareholding of existing Shareholders; (ii) it raises funds immediately upon Completion, and if and when the Warrants are exercised, further funds will be raised for additional general working capital of the Group and the financial conditions and Shareholder base of the Company will accordingly be strengthened; and (iii) it provides investors with an alternative means to invest in the Company.

The Company and the Placing Agent determined the terms of the Placing Agreement based on arm's length negotiation with reference to, amongst other things, the market rate of the placing commission and the price performance of the Shares. The Directors consider that the terms of the Placing, including the placing commission, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

2. USE OF ISSUE PROCEEDS

It is intended that the net issue proceeds of the Placing of about HK\$24.1 million will be mainly used for general working capital as to advertising and promotion of the Group's technology products and general administration expenses of the Group. The Company currently has sufficient liquidity to finance its daily operations and the net issue proceeds of the Placing will further strengthen the Group's cash position.

3. CONDITIONS OF THE PLACING

Completion is conditional on the fulfillment of the following conditions, on or before 5: 30 p.m. on 30 September 2005 (as extended from 16 September 2005 as announced by the Company on 19 August 2005) (or such later time and date as may be agreed between the Company and the Placing Agent in writing):

- (a) the Stock Exchange granting approval of the listing of, and permission to deal in, the 660,000,000 Warrants and the Shares falling to be issued on the exercise of the Subscription Rights;
- (b) the delivery to and registration by the Registrar of Companies in Hong Kong of a copy of this prospectus, duly signed by any two Directors (or by their agents or attorneys duly authorised in writing) in accordance with Section 342C of the Companies Ordinance;
- (c) the delivery to and filing as soon as reasonably practicable with the Registrar of Companies in Bermuda of a copy of this prospectus in accordance with applicable Bermuda law; and
- (d) if necessary, the Bermuda Monetary Authority granting its permission to the issue of the 660,000,000 Warrants and the Shares falling to be issued upon exercise of the Subscription Rights.

If any of the above conditions are not satisfied on or before 30 September 2005 (or such later time and date as may be agreed between the Company and the Placing Agent in writing), the Placing Agreement shall lapse and determine and the Placing will not proceed.

THE PLACING

4. THE PLACING AGREEMENT

The Placing Agent has, pursuant to the Placing Agreement, conditionally agreed, among other matters, to act as the placing agent for and on behalf of the Company to procure on a best endeavours basis not less than 100 placees to subscribe for up to 660,000,000 Warrants at the Placing Price. In consideration of the Placing Agent performing its obligations under the Placing Agreement, the Company will pay the Placing Agent a commission of 2% on the aggregate Placing Price of such number of Warrants successfully placed by it and the Placing Manager an arrangement fee of HK\$150,000 for managing the preparation and finalisation of the relevant documents pursuant to the Placing.

The Placing Agent and its beneficial owners are independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company and any of its subsidiaries, or any of their respective associates (as defined in the Listing Rules).

Under the Placing Agreement, the Placing Agent has further undertaken to the Company to ensure that the placees will be third parties independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined in the Listing Rules).

The Company and the Placing Agent will ensure that the Placing will comply with the relevant provisions of the Listing Rules, including but not limited to Chapter 15 of and Appendix 6 to, the Listing Rules.

5. FORCE MAJEURE

The Placing Agreement contains provisions entitling the Placing Agent to terminate its obligations thereunder on the occurrence of any local, regional, national or international event or change of a political, military or economic nature, which results in a material adverse change in the political, economic or stock market conditions in Hong Kong in the context of the Placing and which materially affects the success of the Placing or any breach of the warranties and representations on the part of the Company under the Placing Agreement which is material in the context of the Placing prior to 5: 30 p.m. on the date of Completion.

6. LISTING AND DEALING

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the 660,000,000 Warrants and any Shares which may fall to be issued upon exercise of the Subscription Rights. No part of the Shares or loan capital of the Company is listed or dealt in on any other stock exchange and the Company is not currently seeking to list the Warrants or the Shares or its loan capital on any other stock exchange.

The Stock Exchange, the SFC and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. Dealings in Warrants will take place in board lots of 100,000 units of initially HK\$17,200 of Subscription Rights. Dealings in Warrants is expected to commence on 3 October 2005.

THE PLACING

Subject to the granting of the listing of and permission to deal in, the 660,000,000 Warrants and the Shares which may fall to be issued upon the exercise of Subscription Rights on the Stock Exchange, as well as compliance with the stock admission requirements of HKSCC, the 660,000,000 Warrants and the Shares which may fall to be issued upon the exercise of Subscription Rights will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in Warrants on the Stock Exchange or, under contingent situation such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Warrants to be admitted into CCASS.

The Stock Exchange charges a trading fee of 0.005% and the SFC charges a transaction levy of 0.005% and investor compensation levy of 0.002% in respect of each transaction effected on the Stock Exchange, payable by each of the seller and the buyer and calculated on the value of the consideration for the relevant securities. In addition, member brokers charge brokerage to both buyers and sellers which is required to be no less than 1% of the value of the purchase or sale (calculated on the value of the relevant securities).

7. SHAREHOLDING OF THE EXISTING SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, Mr. Chu was beneficially interested in approximately 9.19%, of the issued share capital of the Company. Upon exercise in full of the Subscription Rights at the initial subscription price of HK\$0.172 per Share, 660,000,000 Shares will be allotted and issued and Mr. Chu will be beneficially interested in approximately 7.81% of the enlarged issued share capital of the Company. Apart from Mr. Chu, there is no person known to the Directors who was, as at the Latest Practicable Date, directly or indirectly interested in 5% or more of the issued share capital of the Company.

GENERAL INFORMATION OF THE GROUP

1. DESCRIPTION OF THE BUSINESS

The Group is principally engaged in investment holding with its subsidiaries principally engaged in the publication of comics, sales of Chinese operating system, processor, eTextbook and application software and investment holding.

2. BUSINESS OF THE GROUP

Foreword

For the past six years, the Group had been focused on developing Culture.com Technology in pursuit of its long-term development plan that has resulted in the emergence of its technological value. Nowadays, the Group has become an IT enterprise embedding with its core technological value such as V-Dragon Series products and brands. In view of the ever-changing market development, the Directors expected that more products will be launched under the brand name “V-Dragon” which is expected to become one of the major revenue streams of the Group. Further, in view of equipping full IT fundamentals necessary to succeed in the industry, the Directors expected that the Company will become a key enterprise that controls the technical know-how of the Chinese communication computer industry, thereby translating its potential into a core enterprise value and bringing about immense economic interests for the Company and its Shareholders as a whole.

Core Technology Business

Based on the technical know-how of Culture.com Technology, the Group has successfully accomplished a key milestone to establish an industrial foundation and framework for Chinese Computing. With the solid IT foundation, the Group is prepared to enter into the mass market.

(i) Chinese Character Generating Engine (CCG)

This technology has revolutionised the cumbersome traditional Chinese print-edit method by having embedded its Chinese character generating engine in the computer chipset to enhance the CPU functions in tackling the Chinese language.

(ii) “V-Dragon Series” CPU

Noting that CPU core technology is an indispensable part of driving the development of mass market computer, Culturecom has successfully integrated CCG with CPU core technology to create an innovative CPU series, namely “V-Dragon 1610 CPU” and “V-Dragon 3210 CPU” (co-developed with IBM). Leveraging on the increasing popularity of Chinese embedded devices, such as the e-textbook, Tax/POS terminal and Chinese network computer, the Directors anticipate that the V-Dragon series will be widely applied and so the Group will continue to devote its effort to develop “V-Dragon Series” CPU along with the development of mass market CPU core technology.

GENERAL INFORMATION OF THE GROUP

(iii) Red Office 2000 Linux

Collaboration with the Chinese Academy of Sciences had successfully led to launch of “Red Office 2000 Linux”. The product has been gathering momentum since launching to secure contracts from municipal governments, provincial governments, and autonomous region governments nationwide.

(iv) Midori Linux International Public Platform

The Company has also formed a business cooperation with Transmeta Corporation, a hi-tech company based in Santa Clara, CA of USA, to secure the development and management right of the Midori Linux international public platform. The Midori Linux Operation System has become an internationally renowned embedded Linux system platform used by many leading international companies, such as NTT DoCoMo of Japan, to develop different embedded products.

(v) Industrial Mother-board

The Group has teamed up with IBM to complete the industrial mother-board and respective menu of “V-Dragon 3210 CPU” which aims to offer solution for internet accessible terminals and tax-terminal in light of the high demand of converging mobile devices with commonly adopted PC-based platform.

(vi) Chinese Voice Engine (CVE) and Conceptual Judgment System Technology

The Group made use of the Chinese Character DNA technology to successfully develop CVE and also planned to develop jointly with IBM the world’s first new-generation “Chinese Smart Computer Chip” with voice processing capability. Such smart chip features the function of having a computer endowed with the capability to “hear, speak, comprehend and judge”, and to enable the user interacting with the computer itself by means of natural language, spurring on a trend of application R&D of new-generation domestic intelligent home appliances.

(vii) eTown (Digital web-town)

The overall operation mode of eTown has been formed after the activation of the first eTown in Yun’An county, Guangdong province of China in July 2004. At the “17 Meeting of Mayors of Huaihai Economic Zone, the PRC” held in November 2004, it was also duly resolved to adopt the Group’s eTown solution to build a unified information management and development platform for a population of 120,000,000 within the Zone’s 20 cities, 133 counties and 463 towns. With the active support of the Municipal Government of Xuzhou City, the Group has, thereafter, set about the construction of Xuzhou eTown Platform, the first eTown platform in this Zone.

GENERAL INFORMATION OF THE GROUP

In an era characterised by integration of mainstream and non-mainstream computer mechanism and convergence of computer and communication, Culturecom has virtually finished its construction of the full foundation of an IT autonomous computer industry in the PRC. As such, the Directors believe that the Group will be able to provide core solutions applicable to computers and communication products and compatible to mainstream PC-based computer industry, bringing about business opportunity for the Group.

Comic Business

During the year ended 31 March 2005, our imported Japanese titles experienced strong growth with new books, in particular, "Death Note" received high penetration and sales. Sales of local comics showed stable growth and our new business of electronic media such as licensing to movie, TV dramas and online game picked up momentum. From 2005 onwards, over 10 major classic local comic titles will celebrate special anniversary since they were first published. Therefore, the Group plans to launch a new platform of multi-media product mix to revitalise interest in comic classics. In addition, online e-comic business in the PRC is on the track with solid strategic alliance with major service providers such as Tencent QQ and Netease having been established. The Group will continue to explore market opportunities in major economies in Asia Pacific region in the second half of 2005.

Financial Information

For the financial year ended 31 March 2005, the Group recorded a consolidated turnover of approximately HK\$47,247,000 (2004: HK\$40,655,000), of which approximately HK\$47,010,000 and HK\$237,000 (2004: HK\$39,184,000 and HK\$1,471,000) were attributable to the comic business and technology business of the Group respectively.

The consolidated total assets and liabilities of the Group as at 31 March 2005 can be analysed by the business segments as follows:

	Consolidated total assets		Consolidated total liabilities	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Comic business	21,093	6.5	14,997	61.7
Technology business	138,919	42.8	3,461	14.2
Investment holding	30,698	9.5	690	2.8
Unallocated (<i>Note</i>)	133,726	41.2	5,177	21.3
	<hr/>		<hr/>	
Total	<u>324,436</u>	<u>100</u>	<u>24,325</u>	<u>100</u>

Note: The unallocated assets represented property, plant and equipment; investment properties and other receivables of the Group. The unallocated liabilities represented other payable and accrual of general expenses of the Group.

GENERAL INFORMATION OF THE GROUP

3. RECENT DEVELOPMENT OF THE GROUP

Technology business

Culturecom continues to focus on the research and development of Chinese information technology and aims to develop and establish an industrial foundation and framework for Chinese computing. On 27 May 2005, the Group entered into the Assets Purchase Agreement and the Licence Agreement with Transmeta Corporation, whereby upon completion the Group will acquire (i) the Acquired Crusoe Assets and Technology related to the Crusoe Microprocessor and (ii) a licence to manufacture and sell the Efficeon Microprocessor in China as well as to use the Manufacturing Tools for the manufacture and sale of the Crusoe Microprocessor. As such, the Directors believe that the Group will be capable of further stretching its products mix and thereby improving the profitability of the Group. Details of the Assets Purchase Agreement and the Licence Agreement was announced by the Company on 7 June 2005. The Assets Purchase Agreement and the Licence Agreement are subject to the Shareholders' approval in general meeting.

The established x86 industry allows IT manufacturers to develop products much more timely and cost effectively, since peripheral components, design services, and software application, etc. are widely available. After the Acquisition, as a supplier of this x86 compatible microprocessor, the Group's business will be positioned at the upper end at the industrial chain, being more profitable and sustainable. The Group's market sector will cover from middle to high end, especially the x86 sector which is among the largest sector within IT industry. The Directors believe that the Group can better capture the demand tactically and enhance the profitability of the Group in view of the expansion of market coverage.

Given the high English illiteracy rate in China, the Board expects that combining the Group's unique Chinese DNA technology with the Acquired Crusoe Assets and Technology (which features cost effectiveness, energy saving, and embeddability) will well fit Greater China's specific user requirements. The Directors believe that the Group will become a strong competitor and provider of low price, energy saving, versatile and Chinese language capable products in the Greater China IT market, which is among the largest and fastest growing market and so the Group's earnings is expected to be further enhanced in light of its proprietary products.

Comic business

Sales of local comic and imported Japanese title remained as steady revenue of the Group. The production of TV dramas "The Chinese Hero" was completed in July 2005 and will be launched in the PRC by the end of this year. In addition to strategic alliance with major service providers of online e-comic business in PRC, the similar co-operations with service providers in Hong Kong had been commenced in June 2005. The Group will continue to identify and negotiate with potential business partners to explore international market opportunities in PRC and other Asian countries.

The Directors believe that there are no special trade factors or risks as to the financial and trading prospects of the Group for at least the current financial year, together with any material information which are not mentioned elsewhere in the listing document and which are unlikely to be known or anticipated by the general public, and which could materially affect the profits.

GENERAL INFORMATION OF THE GROUP

4. MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover for the year ended 31 March 2005 attributable to the Group's five largest customers accounted for 85% of the Group's turnover, of which 68.6% was attributable to the largest customer.

The aggregate purchases for the year ended 31 March 2005 attributable to the Group's five largest suppliers accounted for 86.1% of the Group's total purchases, of which 71.9% was attributable to the largest supplier.

At no time during the year ended 31 March 2005 did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers for the year ended 31 March 2005.

5. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

	<i>HK\$</i>
<i>Authorised:</i>	
<u>6,000,000,000</u> Shares	<u>600,000,000</u>
	<i>HK\$</i>
<i>Issued and fully paid or credited as fully paid:</i>	
<u>3,733,979,642</u> Shares	<u>373,397,964.20</u>

All of the existing issued Shares rank equally in all respects including all rights as to dividends, voting and return of capital. The 660,000,000 Warrants will confer rights to subscribe in aggregate up to HK\$113,520,000 for a total of 660,000,000 Shares to be issued upon full exercise of the Warrants. The Warrants will be transferrable and exercisable in units of Subscription Rights of HK\$0.172 each and thus every Warrant will entitle the Warrantholder to subscribe in cash for one Share at the initial subscription price of HK\$0.172. The Shares falling to be issued upon the exercise of the Subscription Rights will upon allotment and issue rank equally in all respects with the existing Shares in issue on the relevant Subscription Date save for any right or entitlement to dividends or other rights or distributions the record date for which precedes the date on which such Subscription Rights are exercised pursuant to the terms of the Instrument.

GENERAL INFORMATION OF THE GROUP

The Company has terminated its share option scheme adopted on 15 June 1993 (the “1993 Scheme”) and adopted a new share option scheme (the “2002 Scheme”) at its 2002 Annual General Meeting held on 21 August 2002. Subsequent to the termination of the 1993 Scheme, no further share options can be granted thereunder but in all other respects, the provisions of the 1993 Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

As at the Latest Practicable Date, there were outstanding options entitling the holders thereof to subscribe for 47,100,000 Shares in accordance with the 1993 Scheme and 341,700,000 Shares in accordance with the 2002 Scheme, totalling 388,800,000 Shares which in aggregate represented approximately 10.41% of the issued share capital of the Company as at the Latest Practicable Date.

Save as disclosed in this prospectus, no member of the Group has any share or loan capital under option or agreed conditionally or unconditionally to be put under option, nor have any conversion rights attached to convertible bonds affecting shares in any company of the Group been issued or granted or agreed conditionally or unconditionally to be issued or granted by any of such companies.

As at the Latest Practicable Date, there has been no alterations in the capital of any member of the Group since the date to which the latest published audited accounts of the Company were made up.

6. DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

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

Mr. Chu Bong Foo, aged 67, was appointed as Vice-Chairman and Executive Director of the Company in May 1999 and is responsible for the design and development of Chinese information infrastructure of the Group. Mr. Chu is the inventor of Changjie Index System and has been engaged in the development of Chinese Character Generating technology for over 20 years.

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

GENERAL INFORMATION OF THE GROUP

Mr. Henry Chang Manayan, aged 49, was appointed as Executive Director of the Company in September 1999. He was the Mayor of Milpitas, California, the USA and is the first Mayor of Asian ancestry ever elected in the City of Milpitas. He is also an attorney and business owner of a management consultancy firm. He was educated at Syracuse University, Oxford University (Great Britain), Yale-in-China College, Golden Gate University Graduate College of Banking and Finance and the University of Santa Clara School of Law, where he received his Juris Doctor. Mr. Manayan is the president and general counsel of Transpacific Capital Corporation, a finance and investment company. He also served as a board director, officer and legal counsel to several companies and organisation.

Mr. Wan Xiaolin, aged 47, joined the Group as General Manager in January 2000 and is responsible for the group administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. Prior to joining the Group, he was general manager of China Merchants Transportation Group for finance and accounting division. Mr. Wan was appointed as Executive Director of the Company in July 2002.

Independent Non-Executive Directors

Mr. Lai Man To, aged 75, was appointed as an Independent Non-Executive Director of the Company in March 1999. Mr. Lai is a mechanical engineering specialist and has over 30 years of experience in finance and securities industry. Before his retirement in 1998, he has held various senior positions including senior manager of Sun Hung Kai Securities Limited and chief executive officer of Cheerful (Holdings) Limited.

Mr. Wang Tiao Chun, aged 49, was appointed as an Independent Non-Executive Director of the Company in August 1999. Mr. Wang currently holds various senior management positions in various companies in Taiwan.

Mr. Joseph Lee Chennault, aged 61, was appointed as an Independent Non-Executive Director of the Company in September 2004. Mr. Chennault holds a Bachelor of Arts in Economics from the University of San Francisco and MBA from Golden Gate University. He is a member of the California Society of Certified Public Accountants and has over 30 years of experience in accounting and auditing.

Senior Management

Dr. Chen Tzyh Trong, aged 47, joined the Company as Vice President and Executive Assistant to Chairman in May 2003. Dr. Chen graduated from the National Taiwan University with a 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.

GENERAL INFORMATION OF THE GROUP

Mr. Lai Hoi Fai, aged 50, joined the Group as Vice President, Business Strategy and Development in March 2003. Mr. Lai is a Telecom and IT business development professional, with the bulk of his over 20 years of professional experience gained from leading multinational corporations including Digital Equipment Corporation, National Semiconductor, Mitel, and Sonera where he had served as senior regional executive for the Asia Pacific market. He holds a Bachelor degree in Electrical Engineering from McGill University (Canada) and MBA from the University of Hong Kong.

Mr. Chen Man Lung, aged 39, joined the Group as a Vice President in December 1998 and is responsible for the publishing business and corporate development of the Group. Mr. Chen graduated with an Honour Diploma in sociology from Hong Kong Baptist College in 1989 and a Master degree of arts in Chinese studies from the Hong Kong University of Science and Technology in 1994. Mr. Chen has worked as an economist in a consultant firm and a bank and has over 8 years of experience in the investment industry.

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

Mr. Tang U Fai, aged 32, joined the Group as Technical Officer in May 2001 and is responsible for the design and development of V-Dragon CPU and COL-eTown project. Mr. Tang is one of Mr. Chu Bong Foo's dedicated disciples.

Mr. Lee Kin Chung, Michael, aged 50, joined the Group as Vice President in June 1999 and is responsible for development and marketing of the Group's publishing business. Mr. Lee has over 20 years of experience in the publication field and had been involved in the publication operation of various newspapers and magazines in Hong Kong.

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

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

Mr. Wong Shu Pui, aged 38, joined the Group as General Counsel in November 2000 and is responsible for all the legal matters of the Group.

GENERAL INFORMATION OF THE GROUP

7. MARKET STATISTICS

The Shares are listed on the Stock Exchange only. The board lot for trading in the Shares on the Stock Exchange is 2,000 Shares.

Set out below are the market statistics of the Company:

- (a) The highest and lowest closing prices on the Stock Exchange of the Shares in 2003, 2004 and 2005 until the Latest Practicable Date are set out below:

Year	High <i>HK\$</i>	Low <i>HK\$</i>
2003	0.345	0.160
2004	0.720	0.255
2005 (up to the Latest Practicable Date)	0.425	0.201

- (b) Closing price per Share as at the Latest Practicable Date HK\$0.216

- (c) Market capitalisation (*Note*)..... HK\$806,539,603

Note: Based on the number of Shares in issue and the closing price per Share as at the Latest Practicable Date.

FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated profit and loss accounts and consolidated cashflow statement for each of the three years ended 31 March 2003, 2004 and 2005 and the consolidated balance sheet as at 31 March 2003, 2004 and 2005 of the Group together with the relevant notes in the annual accounts as extracted from the audited financial statements of the Company for each of the three years ended 31 March 2003, 2004 and 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		47,247	40,655	59,138
Cost of sales		(37,004)	(31,364)	(48,220)
Gross profit		10,243	9,291	10,918
Other operating income		6,994	7,942	3,584
Administrative expenses		(81,913)	(64,458)	(78,787)
Amortisation of development costs		(23,818)	(18,706)	(18,431)
Research and development expenditures		(8,819)	(4,815)	(9,356)
Allowances for trade and other debtors		(8,166)	(1,123)	(25,975)
Net unrealised (loss) gain on other investments		(42,324)	15,600	(5,565)
Amortisation of goodwill		–	–	(220)
Loss from operations	6	(147,803)	(56,269)	(123,832)
Share of results of associates		(10,034)	(9,514)	(8,518)
Share of result of a jointly controlled entity		(1,526)	(1,136)	(2,607)
Gain on disposal of an associate		–	1,995	–
Loss on deemed disposal of an associate		–	(1,548)	–
Finance costs	7	(9)	(9)	(16)
Write back of impairment loss previously recognised in respect of property, plant and equipment		23,000	–	–
Allowances for loans to associates		(5,591)	–	(28,000)
Impairment loss recognised in respect of development costs	13	(6,700)	–	–
Impairment loss recognised in respect of goodwill in reserve	27	(10,777)	(6,000)	–
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	17	(3,491)	–	–
Gain on disposal of subsidiaries		–	–	16,328
Impairment loss recognised in respect of goodwill arising on acquisition of an associate		–	–	(4,389)
Gain on expiry of warrants		–	–	97
Loss before taxation		(162,931)	(72,481)	(150,937)
Taxation credit	9	–	–	141
Loss before minority interests		(162,931)	(72,481)	(150,796)
Minority interests		–	14	1,434
Net loss for the year		<u>(162,931)</u>	<u>(72,467)</u>	<u>(149,362)</u>
Loss per share – basic and diluted	10	<u>HK(4.84) cents</u>	<u>HK(2.37) cents</u>	<u>HK(4.99) cents</u>

FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED BALANCE SHEET

At 31 March

	Notes	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current assets				
Property, plant and equipment	11	62,004	70,989	80,795
Investment properties	12	56,015	–	–
Development costs	13	32,955	45,557	55,506
Interests in associates	16	12,171	86,274	100,101
Interest in a jointly controlled entity	17	740	5,757	6,893
Investments in securities	18	1,385	1,385	4,585
		<u>165,270</u>	<u>209,962</u>	<u>247,880</u>
Current assets				
Inventories	19	3,595	15,783	13,847
Trade debtors	20	9,152	10,979	12,494
Other debtors, deposits and prepayments		23,151	33,903	36,480
Amounts due from related companies		7,640	7,668	6,199
Amount due from a jointly controlled entity		1,540	82	23
Amounts due from associates	21	75,796	–	–
Taxation recoverable		62	–	398
Investments in securities	18	23,036	65,948	50,250
Bank balances and deposits with other financial institutions		15,194	69,809	15,835
		<u>159,166</u>	<u>204,172</u>	<u>135,526</u>
Current liabilities				
Trade creditors	22	9,645	5,482	6,047
Other creditors and accrued charges		14,163	17,344	14,044
Amounts due to related companies		467	488	975
Obligations under a finance lease – amount due within one year	23	34	34	34
		<u>24,309</u>	<u>23,348</u>	<u>21,100</u>
Net current assets		<u>134,857</u>	<u>180,824</u>	<u>114,426</u>
		<u>300,127</u>	<u>390,786</u>	<u>362,306</u>
Capital and reserves				
Share capital	24	346,160	332,352	301,400
Reserves	27	(46,049)	58,384	60,808
		<u>300,111</u>	<u>390,736</u>	<u>362,208</u>
Non-current liabilities				
Obligations under a finance lease – amount due after one year	23	16	50	84
Minority interests		–	–	14
		<u>300,127</u>	<u>390,786</u>	<u>362,306</u>

FINANCIAL INFORMATION OF THE GROUP

BALANCE SHEET

At 31 March

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets				
Investments in subsidiaries	14	80,709	80,709	80,709
Amounts due from subsidiaries	15	–	264,235	278,780
Loans to associates	16	–	3,970	3,970
		<u>80,709</u>	<u>348,914</u>	<u>363,459</u>
Current assets				
Amounts due from associates	21	3,970	–	–
Amounts due from subsidiaries	15	204,304	–	–
Other debtors, deposits and prepayments		3,444	3,444	3,444
Bank balances		8,334	42,291	46
		<u>220,052</u>	<u>45,735</u>	<u>3,490</u>
Current liabilities				
Other creditors and accrued charges		509	492	364
		<u>509</u>	<u>492</u>	<u>364</u>
Net current assets				
		<u>219,543</u>	<u>45,243</u>	<u>3,126</u>
		<u>300,252</u>	<u>394,157</u>	<u>366,585</u>
Capital and reserves				
Share capital	24	346,160	332,352	301,400
Reserves	27	(45,908)	61,805	65,185
		<u>300,252</u>	<u>394,157</u>	<u>366,585</u>

FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March

	Total equity <i>HK\$'000</i>
At 1 April 2002	450,510
Exchange differences 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	(149,362)
At 31 March 2003 and 1 April 2003	362,208
Exchange differences on translation of overseas operations not recognised in the income statement	170
Issue of warrants	23,774
Exercise of warrants	18,104
Exercise of share options	52,947
Impairment loss recognised in respect of goodwill arising on acquisition of an associate included in reserve	6,000
Net loss for the year	(72,467)
At 31 March 2004 and 1 April 2004	390,736
Exchange differences on translation of overseas operations not recognised in the income statement	7
Exercise of warrants	11,646
Exercise of share options	18,937
Share issue expenses	(51)
Surplus on revaluation of investment properties	30,990
Impairment loss recognised in respect of goodwill arising on acquisition of an associate included in reserve	10,777
Net loss for the year	(162,931)
At 31 March 2005	300,111

FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March

	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES			
Loss before taxation	(162,931)	(72,481)	(150,937)
Adjustments for:			
Amortisation of development costs	23,818	18,706	18,431
Depreciation and amortisation of property, plant and equipment	7,422	10,957	10,363
Amortisation of goodwill	–	–	220
Dividend income	(82)	(140)	(375)
Interest expenses	9	9	16
Interest income	(328)	(389)	(754)
Loss on disposal of property, plant and equipment	219	3	99
Write-down of inventories	14,294	2,500	1,078
Allowances for trade and other debtors	8,166	1,123	25,975
Net realised loss (gain) on investments	342	(1,960)	1,898
Net unrealised loss (gain) on investments in securities	42,324	(15,600)	5,565
Share of results of associates	10,034	9,514	8,518
Share of result of a jointly controlled entity	1,526	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 development costs	6,700	–	–
Impairment loss recognised in respect of goodwill in reserve	10,777	6,000	–
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	3,491	–	–
Write back of impairment loss previously recognised in respect of property, plant and equipment	(23,000)	–	–
Allowances for amounts due from associates	5,591	–	28,000
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)
	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	(51,628)	(41,069)	(61,332)
Increase in inventories	(2,106)	(4,436)	(14,405)
(Increase) decrease in trade debtors	(1,339)	1,515	2,930
Decrease (increase) in other debtors, deposits and prepayments	5,752	1,454	(6,823)
Decrease (increase) in amounts due from related companies	28	(1,469)	(2,093)
Increase in amount due from a jointly controlled entity	(1,458)	(59)	(23)
Increase (decrease) in trade creditors	4,163	(565)	(1,377)
(Decrease) increase in other creditors and accrued charges	(3,181)	3,300	1,541
Decrease in amounts due to related companies	(21)	(487)	(1,763)
	<hr/>	<hr/>	<hr/>
NET CASH USED IN OPERATIONS	(49,790)	(41,816)	(83,345)
Interest received	328	389	754
Hong Kong Profits Tax (paid) refunded	(62)	398	204
	<hr/>	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(49,524)	(41,029)	(82,387)

FINANCIAL INFORMATION OF THE GROUP

	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
INVESTING ACTIVITIES			
Additions to development costs	(17,438)	(8,121)	(14,326)
Advances to associates	(17,318)	(9,241)	(11,225)
Purchase of investments in securities	(2,331)	–	(1,200)
Purchase of property, plant and equipment	(1,164)	(1,790)	(6,656)
Proceeds from disposal of investments in securities	2,577	5,062	13,047
Dividend received from investments in securities	82	140	375
Proceeds from disposal of property, plant and equipment	5	–	23
Proceeds from disposal of an associate	–	14,001	–
Disposal of subsidiaries	–	–	(2,318)
Acquisition of interest in an associate	–	–	(27,005)
Acquisition of interest in jointly controlled entity	–	–	(9,500)
	<hr/>	<hr/>	<hr/>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(35,587)	51	(58,785)
FINANCING ACTIVITIES			
Net proceeds from issue of shares	30,583	71,051	61,139
Share issue expenses	(51)	–	–
Repayment of obligations under a finance lease	(34)	(34)	(50)
Interest paid	(9)	(9)	(16)
Net proceeds from issue of warrants	–	23,774	–
	<hr/>	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	30,489	94,782	61,073
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(54,622)	53,804	(80,099)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	69,809	15,835	95,916
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	7	170	18
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15,194	69,809	15,835
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances and deposits with other financial institutions	15,194	69,809	15,835
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL INFORMATION OF THE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March

1. GENERAL

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill

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

Goodwill arising on acquisitions prior to 1 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.

FINANCIAL INFORMATION OF THE GROUP

Goodwill arising on acquisitions after 1 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.

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

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

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

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

Investment properties

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

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

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

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

Investments in securities

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

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

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

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

Research and development costs

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

Finance lease

Lease is classified as a 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.

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Inventories

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible.

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

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

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

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

Foreign currencies

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

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

Retirement benefits costs

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

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

Income statement for the year ended 31 March 2005

	Publishing <i>HK\$'000</i>	Chinese information infrastructure <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	47,010	237	–	47,247
Segment results	1,291	(80,862)	(41,113)	(120,684)
Unallocated corporate expenses				(27,119)
Loss from operations				(147,803)
Share of results of associates	–	(4,234)	(5,800)	(10,034)
Share of result of a jointly controlled entity	–	(1,526)	–	(1,526)
Finance costs				(9)
Write back of impairment loss previously recognised in respect of property, plant and equipment				23,000
Allowance for loans to associates	–	(5,591)	–	(5,591)
Impairment loss recognised in respect of development costs	–	(6,700)	–	(6,700)
Impairment loss recognised in respect of goodwill in reserve	–	(10,777)	–	(10,777)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	–	(3,491)	–	(3,491)
Loss before taxation				(162,931)
Taxation				–
Loss before minority interests				(162,931)
Minority interests				–
Net loss for the year				(162,931)

FINANCIAL INFORMATION OF THE GROUP

Balance sheet at 31 March 2005

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

Other information for the year ended 31 March 2005

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	17	918	–	229	1,164
Additions of development costs	–	17,916	–	–	17,916
Amortisation of development costs	–	23,564	–	254	23,818
Depreciation and amortisation of property, plant and equipment	866	3,769	16	3,249	7,900
Allowances for trade and other debtors	2,227	2,556	–	3,383	8,166
Impairment loss recognised in respect of development costs	–	6,700	–	–	6,700
Impairment loss recognised in respect of goodwill in reserve	–	10,777	–	–	10,777
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	–	3,491	–	–	3,491

FINANCIAL INFORMATION OF THE GROUP

Income statement for the year ended 31 March 2004

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

FINANCIAL INFORMATION OF THE GROUP

Balance sheet at 31 March 2004

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

Other information for the year ended 31 March 2004

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

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Income statement for the year ended 31 March 2003

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	55,539	3,599	–	59,138
Segment results	3,480	(58,089)	(34,684)	(89,293)
Unallocated corporate expenses				(34,539)
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				(16)
Loss before taxation				(150,937)
Taxation credit				141
Loss before minority interests				(150,796)
Minority interests				1,434
Net loss for the year				(149,362)

Balance sheet at 31 March 2003

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	35,524	116,868	40,441	192,833
Interests in associates				100,101
Interest in a jointly controlled entity				6,893
Unallocated corporate assets				83,579
Consolidated total assets				383,406
LIABILITIES				
Segment liabilities	13,365	3,612	411	17,388
Unallocated corporate liabilities				3,796
Consolidated total liabilities				21,184

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Other information for the year ended 31 March 2003

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated 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	119	19,070	6,786	–	25,975
	<u>119</u>	<u>19,070</u>	<u>6,786</u>	<u>–</u>	<u>25,975</u>

Geographical segments

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

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

	Turnover			Loss from operations		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	47,247	40,373	56,715	(135,939)	(39,345)	(101,628)
PRC	–	282	2,423	(11,864)	(16,924)	(22,204)
	<u>47,247</u>	<u>40,655</u>	<u>59,138</u>	<u>(147,803)</u>	<u>(56,269)</u>	<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		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	319,402	404,694	373,634	19,038	3,411	14,234
PRC	5,034	9,440	9,772	42	7,136	7,510
	<u>324,436</u>	<u>414,134</u>	<u>383,406</u>	<u>19,080</u>	<u>10,547</u>	<u>21,744</u>

FINANCIAL INFORMATION OF THE GROUP

6. LOSS FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):			
Staff costs			
Directors' emoluments (<i>note 8</i>)	5,346	4,656	4,618
Other staff costs:			
– Retirement benefits schemes contributions	635	807	1,682
– Salaries and other benefits (<i>note</i>)	22,537	24,759	38,363
	<u>28,518</u>	<u>30,222</u>	<u>44,663</u>
Less: Amount capitalised in the development costs	430	5,356	5,093
	<u>28,088</u>	<u>24,866</u>	<u>39,570</u>
Auditors' remuneration	835	870	950
Write-down of inventories	14,294	2,500	1,078
Depreciation and amortisation			
– Owned assets	7,875	11,568	10,942
– Asset held under a finance lease	25	25	15
	<u>7,900</u>	<u>11,593</u>	<u>10,957</u>
Less: Amount capitalised in the development costs	478	636	594
	<u>7,422</u>	<u>10,957</u>	<u>10,363</u>
Loss on disposal of property, plant and equipment	219	3	99
Operating lease rentals in respect of rented premises	1,533	1,278	1,216
Net realised loss (gain) on investments in securities	342	(1,960)	1,898
Net property rental income under operating leases, net of direct outgoings of HK\$200,000 (2004 and 2003: HK\$142,000)	(3,907)	(2,973)	(2,299)
Interest income	(328)	(389)	(754)
Dividend income	(82)	(140)	(375)
	<u><u>(82)</u></u>	<u><u>(140)</u></u>	<u><u>(375)</u></u>

Note: Amount includes salaries of HK\$5,122,000 (2004 and 2003: Nil) paid to employees engaged in research and development activities. The amount is classified as research and development expenditures in the income statement.

7. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on a finance lease	<u>9</u>	<u>9</u>	<u>16</u>

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8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' remuneration:			
Fees:			
Executive directors	480	360	360
Independent non-executive directors	720	120	120
	1,200	480	480
Other emoluments:			
Executive directors:			
Salaries and other benefits	3,978	4,008	3,958
Retirement benefits scheme contributions	42	48	60
Independent non-executive directors:			
Salaries and other benefits	126	120	120
	4,146	4,176	4,138
	5,346	4,656	4,618

Emoluments of the directors were within the following bands:

	2005	Number of directors 2004	2003
Nil – HK\$1,000,000	6	5	5
HK\$1,000,001 – HK\$1,500,000	3	3	3
	9	8	8

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.

FINANCIAL INFORMATION OF THE GROUP

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2004 and 2003: three) were directors of the Company whose emoluments are included in the disclosure in note 8(a) above. The details of the remaining two (2004 and 2003: two) highest paid individuals were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	2,297	2,201	2,616
Retirement benefits scheme contributions	24	24	24
	<u>2,321</u>	<u>2,225</u>	<u>2,640</u>

Their emoluments were within the following bands:

	Number of employees		
	2005	2004	2003
Nil to HK\$1,000,000	1	1	–
HK\$1,000,001 to HK\$1,500,000	1	1	2
	<u>2</u>	<u>2</u>	<u>2</u>

9. TAXATION

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

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

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss before taxation	<u>(162,931)</u>	<u>(72,481)</u>	<u>(150,937)</u>
Taxation at the domestic income tax rate of 17.5% (2004: 17.5%; 2003:16%)	(28,513)	(12,684)	(24,150)
Tax effect of income not taxable for tax purpose	(4,082)	(417)	(2,733)
Tax effect of estimated tax losses not recognised	18,815	9,916	19,886
Tax effect of expenses not deductible for tax purpose	13,780	3,185	6,997
Overprovision of taxation in previous years	–	–	141
Taxation credit for the year	<u>–</u>	<u>–</u>	<u>141</u>

10. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$162,931,000 (2004: HK\$72,467,000; 2003: HK\$149,362,000) and the weighted average number of 3,366,259,000 (2004: 3,058,898,000; 2003: 2,993,968,000) ordinary shares in issue during the year.

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

FINANCIAL INFORMATION OF THE GROUP

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Vehicles, furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1 April 2002	128,400	31,759	15,429	55,792	231,380
Additions	–	285	–	6,539	6,824
Disposals	–	–	(140)	(75)	(215)
Disposal of subsidiaries	–	–	–	(1,577)	(1,577)
At 31 March 2003 and 1 April 2003	128,400	32,044	15,289	60,679	236,412
Additions	–	62	–	1,728	1,790
Disposals	–	–	–	(17)	(17)
At 31 March 2004 and 1 April 2004	128,400	32,106	15,289	62,390	238,185
Additions	–	228	–	936	1,164
Transfer to investment properties (<i>note 12</i>)	(68,761)	–	–	–	(68,761)
Disposals	–	–	(839)	(15,353)	(16,192)
At 31 March 2005	59,639	32,334	14,450	47,973	154,396
DEPRECIATION, AMORTISATION AND IMPAIRMENT					
At 1 April 2002	77,162	20,924	11,819	35,203	145,108
Provided for the year	2,254	3,603	193	4,907	10,957
Eliminated on disposals	–	–	(50)	(43)	(93)
Eliminated on disposal of subsidiaries	–	–	–	(355)	(355)
At 31 March 2003 and 1 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)
At 31 March 2004 and 1 April 2004	81,670	28,077	12,679	44,770	167,196
Provided for the year	1,036	1,254	592	5,018	7,900
Transfer to investment properties (<i>note 12</i>)	(43,736)	–	–	–	(43,736)
Write back of impairment (<i>Note</i>)	(23,000)	–	–	–	(23,000)
Eliminated on disposals	–	–	(615)	(15,353)	(15,968)
At 31 March 2005	15,970	29,331	12,656	34,435	92,392
NET BOOK VALUES					
At 31 March 2005	<u>43,669</u>	<u>3,003</u>	<u>1,794</u>	<u>13,538</u>	<u>62,004</u>
At 31 March 2004	<u>46,730</u>	<u>4,029</u>	<u>2,610</u>	<u>17,620</u>	<u>70,989</u>
At 31 March 2003	<u>48,984</u>	<u>7,517</u>	<u>3,327</u>	<u>20,967</u>	<u>80,795</u>

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

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

At the balance sheet date, included in vehicles, furniture and equipment is an asset held under a finance lease with net book value of HK\$103,000 (2004: HK\$128,000; 2003: HK\$153,000).

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

12. INVESTMENT PROPERTIES

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

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

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

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

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

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

13. DEVELOPMENT COSTS

	2005 <i>HK\$'000</i>	THE GROUP 2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
COST			
At 1 April	95,045	86,288	107,900
Additions	17,916	8,757	14,920
Disposal of subsidiaries	–	–	(36,532)
At 31 March	112,961	95,045	86,288
AMORTISATION AND IMPAIRMENT			
At 1 April	49,488	30,782	26,525
Amortised for the year	23,818	18,706	18,431
Eliminated on disposal of subsidiaries	–	–	(14,174)
Impairment loss recognised	6,700	–	–
At 31 March	80,006	49,488	30,782
NET BOOK VALUES			
At 31 March	32,955	45,557	55,506

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

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

FINANCIAL INFORMATION OF THE GROUP

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	374,246	374,246	374,246
Less: Impairment loss recognised	(293,537)	(293,537)	(293,537)
	80,709	80,709	80,709

Particulars of the Company's principal subsidiaries as at 31 March 2005 are as follows:

Name	Place/country of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Citicomics Limited	Hong Kong	Ordinary HK\$2	100	Publishing
Culturecom Centre Limited	Hong Kong	Ordinary HK\$2	100	Property holding
Culturecom e-publication Limited	Hong Kong	Ordinary HK\$2	100	Development of electronic publication
Culturecom Enterprises Limited	Hong Kong	Ordinary HK\$2	100	Management services
Culturecom Holdings (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US\$2	100	Investment holding
Culturecom Limited	Hong Kong	Ordinary HK\$1,000	100	Investment holding and publishing
Culturecom Investments Limited	Hong Kong	Ordinary HK\$2	100	Investment holding and securities trading
Culture.com Technology Limited ("Culture.com")	Hong Kong	Ordinary HK\$2	100	Development of Chinese language computer processor
Culture.com Technology (BVI) Limited	BVI/Hong Kong	Ordinary US\$1	100	Investment holding
CultureKid i-shop (HK) Limited	Hong Kong	Ordinary HK\$2	100	Retailing and development of computer application software
Growlong Company Limited	Hong Kong	Ordinary HK\$10,000	100	Licensing
Culturecom Online Limited	Hong Kong	Ordinary HK\$2	100	Electronic publication
文傳漫畫設計(深圳)有限公司 (Note)	PRC	Registered HK\$1,000,000	100	Comics design and production
SNIIC Technology Limited	Hong Kong	Ordinary HK\$50,000	100	Development of secure numerical internetwork information center
Winway H.K. Investments Limited ("Winway")	Hong Kong	Ordinary HK\$2	100	Investment holding and securities trading

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

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15. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand. In 2004 and 2003, the amounts were classified as non-current assets since the directors were in the opinion that the amounts would not be repaid within twelve months from the balance sheet date.

16. INTERESTS IN ASSOCIATES

	THE GROUP			THE COMPANY		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of net assets	12,171	22,205	45,273	–	–	–
Loans to associates	–	92,069	82,828	–	3,970	3,970
Allowances for loans to associates	–	(28,000)	(28,000)	–	–	–
	<u>12,171</u>	<u>86,274</u>	<u>100,101</u>	<u>–</u>	<u>3,970</u>	<u>3,970</u>
Market value of listed shares	<u>9,900</u>	<u>31,500</u>	<u>9,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

The loans are unsecured, interest free and repayable on demand. In 2004 and 2003, the amounts were classified as non-current assets since the directors were in the opinion that the amounts would not be repaid within twelve months from the balance sheet date.

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

Name	Form of business structure	Country/ place of incorporation/ operation	Class of share held	Proportion of nominal value of issued share capital held by the Group %	Principal activities
Chinese 2 Linux (Holdings) Limited ("C2L")	Incorporated	BVI/Hong Kong	Ordinary	41	Development of Chinese language computer operating system
GlobalRes Group Limited	Incorporated	BVI/Hong Kong	Ordinary	30	Provision of computer and telecommunications services to travel agents
Q9 Technology Holdings Limited ("Q9 Technology") (Note)	Incorporated	Cayman Islands/ Hong Kong	Ordinary	24	Development, packing and retailing of the Chinese language encryption software
DNA Incorporated	Incorporated	Cayman Islands/ Hong Kong	Ordinary	34	Research and development of novel vaccines for veterinary infections diseases
Impact Lift Technology Limited	Incorporated	BVI/Hong Kong	Ordinary	20	Research and development, and holding of biofertiliser for vegetable production
The Universal.Com Technology Limited	Incorporated	Hong Kong	Ordinary	30	Publishing and development of electronic publication

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

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

The above table lists the associates of the Group which principally affect the results of the Group or form a substantial portion of the Group's interests in associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of net assets	740	1,878	2,626
Premium on formation of a jointly controlled entity	3,491	3,879	4,267
Less: Impairment loss recognised	(3,491)	–	–
	740	5,757	6,893

As at 31 March 2005, the Group had interests in the following jointly controlled entity:

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

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

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
COST			
At 1 April	4,655	4,655	4,655
AMORTISATION AND IMPAIRMENT			
At 1 April	776	388	–
Amortised for the year	388	388	388
Impairment loss recognised	3,491	–	–
At 31 March	4,655	776	388
CARRYING AMOUNTS			
At 31 March	–	3,879	4,267

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

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

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18. INVESTMENTS IN SECURITIES

	Investment securities			Other investments			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
Non-current assets:									
Unlisted securities –									
Equity securities	1,385	1,385	3,385	–	–	–	1,385	1,385	3,385
Debt securities	–	–	1,200	–	–	–	–	–	1,200
	<u>1,385</u>	<u>1,385</u>	<u>4,585</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,385</u>	<u>1,385</u>	<u>4,585</u>
Current assets:									
Listed equity securities –									
Hong Kong	–	–	–	20,791	63,714	50,168	20,791	63,714	50,168
Overseas	–	–	–	445	434	82	445	434	82
	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>
Unlisted debt securities	–	–	–	1,800	1,800	–	1,800	1,800	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>23,036</u>	<u>65,948</u>	<u>50,250</u>	<u>23,036</u>	<u>65,948</u>	<u>50,250</u>
	<u>1,385</u>	<u>1,385</u>	<u>4,585</u>	<u>23,036</u>	<u>65,948</u>	<u>50,250</u>	<u>24,421</u>	<u>67,333</u>	<u>54,835</u>
Market value of listed securities									
	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>

19. INVENTORIES

The inventories of the Group represent finished goods which included an amount of HK\$578,000 (2004: HK\$14,286,000; 2003: HK\$8,395,000) carried at net realisable value at the balance sheet date.

20. TRADE DEBTORS

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

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
0 – 60 days	7,360	5,979	6,422
61 – 90 days	183	582	916
Over 90 days	1,609	4,418	5,156
	<u>9,152</u>	<u>10,979</u>	<u>12,494</u>

21. AMOUNTS DUE FROM ASSOCIATES

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

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22. TRADE CREDITORS

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

	THE GROUP		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 60 days	5,086	4,475	3,253
61 – 90 days	2,090	166	240
Over 90 days	2,469	841	2,554
	<u>9,645</u>	<u>5,482</u>	<u>6,047</u>

23. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments			Present value of minimum lease payments		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Amounts payable under a finance lease:						
Within one year	43	43	43	34	34	34
In the second to fifth years inclusive	21	64	106	16	50	84
	<u>64</u>	<u>107</u>	<u>149</u>	<u>50</u>	<u>84</u>	<u>118</u>
Less: Future finance charges	(14)	(23)	(31)	–	–	–
Present value of lease obligations	<u>50</u>	<u>84</u>	<u>118</u>	50	84	118
Less: Amount due from settlement within one year shown under current liabilities				(34)	(34)	(34)
Amount due after one year				<u>16</u>	<u>50</u>	<u>84</u>

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

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24. SHARE CAPITAL

	Number of shares			Share capital		
	2005 '000	2004 '000	2003 '000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each						
Authorised:						
At 1 April	4,000,000	4,000,000	4,000,000	400,000	400,000	400,000
Increase on 24 August 2004	2,000,000	–	–	200,000	–	–
At 31 March	<u>6,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>	<u>600,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:						
At 1 April	3,323,520	3,014,000	2,787,560	332,352	301,400	278,756
Exercise of share options (<i>Note</i>)	67,500	199,800	–	6,750	19,980	–
Exercise of warrants (<i>Note 25</i>)	70,580	109,720	226,440	7,058	10,972	22,644
At 31 March	<u>3,461,600</u>	<u>3,323,520</u>	<u>3,014,000</u>	<u>346,160</u>	<u>332,352</u>	<u>301,400</u>

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

25. WARRANTS

On 6 June 2003, the Company entered into a placing and underwriting agreement with a placing agent in relation to the private placing of 430,000,000 warrants (“2005 Warrants”) conferring rights to subscribe up to HK\$70,950,000 in aggregate in cash for shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.165 per share during the period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4 July 2003.

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

During the year, registered holders of 70,580,000 units (2004: 109,720,000 units) of outstanding 2005 warrants exercised their rights to subscribe for 70,580,000 shares (2004: 109,720,000 shares) in the Company at HK\$0.165 per share.

On 31 March 2005, the Company had 249,700,000 units of outstanding 2005 Warrants conferring rights to subscribe up to approximately HK\$41,201,000 in cash for shares of HK\$0.10 each in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as of 31 March 2005, result in the issue of 249,700,000 additional shares of HK\$0.10 each in the Company.

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26. SHARE OPTION SCHEME

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

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

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any employee or director of the Group.
- (iii) The maximum number of shares of the Company in respect of which share options might be granted under the Old Option Scheme must not exceed 10% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with the Company’s shares issued and issuable under any share option granted to the same participant under the Old Option Scheme, must not exceed 25% of the maximum shares issuable under the Old Option Scheme from time to time.
- (v) The exercisable period of a share option granted must not exceed a period of 10 years commencing on the date of grant.
- (vi) The acceptance of a share option, if accepted, must be made within 21 days from the date of grant with a non-refundable payment of HK\$10 from the grantee to the Company.
- (vii) The exercise price of a share option must be the higher of:
 - 80% of the average closing price of a share of the Company for the 5 trading days immediately preceding the grant; and
 - the nominal value of a share of the Company.
- (viii) On 21 August 2002, the 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.

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

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

FINANCIAL INFORMATION OF THE GROUP

- (ii) The participants included any employee, director, supplier, agent, consultant, adviser, strategist, contractor, subcontractor, expert or customer of the Group and/or Invested Entity.
- (iii) The maximum number of shares of the Company in respect of which share options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The scheme mandate limit of the New Option Scheme was refreshed by the approval of the shareholders in the 2004 Annual General Meeting. At 31 March 2005, the total number of shares of the Company available for issue under the Company's New Option Scheme was 366,700,000 (2004: 100,200,000) shares, representing 10.59% (2004: 3.01%) of the issued share capital of the Company as at the date. However, the total maximum number of shares of the Company which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares of the Company in issue from time to time.
- (iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding share options and the options cancelled) under any share option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares of the Company in issue from time to time.
- (v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors and provided in the offer of grant of share option.
- (vi) The exercise period should be any period fixed by the board of directors upon grant of the share option but in any event the share option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (viii) The exercise price of a share option must be the highest of:
 - the closing price of a share of the Company on the date of grant which must be a trading day;
 - the average closing price of a share of the Company for the 5 trading days immediately preceding the date of grant; and
 - the nominal value of a share of the Company.
- (ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 20 August 2012.

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

Category of participants	Name of scheme	Date of grant	Exercisable period	Exercise price HK\$	Number of share options										
					Outstanding at 31.3.2003					Outstanding at 31.3.2004					
					Outstanding at 1.4.2002	Transferred during 2002/03	Granted during 2003/04	Exercised during 2003/04	Lapsed during 2003/04	Outstanding at 1.4.2004	Granted during 2004/05	Exercised during 2004/05	Lapsed during 2004/05	Outstanding at 31.3.2005	
Directors	Old Option Scheme	27.8.1999	27.8.1999 – 26.8.2009	0.264	12,000,000	-	12,000,000	-	-	-	12,000,000	-	(1,000,000)	-	11,000,000
		3.3.2000	3.3.2000 – 2.3.2010	1.680	10,065,000	1,000,000	11,065,000	-	-	-	11,065,000	-	-	-	11,065,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	-	-	-	11,000,000	-	-	11,000,000	-	-	-	11,000,000
					22,065,000	1,000,000	23,065,000	11,000,000	-	-	34,065,000	-	(1,000,000)	-	33,065,000
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	-	-	-	25,035,000
		New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	-	-	-	173,000,000	(124,800,000)	-	48,200,000	-	(10,500,000)	-
			24.3.2005	24.3.2005 – 23.3.2015	0.295	-	-	-	-	-	-	71,000,000	-	-	71,000,000
					28,535,000	(1,000,000)	27,535,000	173,000,000	(124,800,000)	(2,500,000)	73,235,000	71,000,000	(10,500,000)	-	133,735,000
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	-	-	-	116,000,000	(75,000,000)	-	41,000,000	-	(21,000,000)	-	20,000,000
			24.3.2005	24.3.2005 – 23.3.2015	0.295	-	-	-	-	-	-	262,000,000	(35,000,000)	-	227,000,000
						-	-	-	116,000,000	(75,000,000)	-	41,000,000	262,000,000	(56,000,000)	-
					50,600,000	-	50,600,000	300,000,000	(199,800,000)	(2,500,000)	148,300,000	333,000,000	(67,500,000)	-	413,800,000

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

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

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27. RESERVES

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

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

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

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

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

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

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

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

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

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

FINANCIAL INFORMATION OF THE GROUP

28. DEFERRED TAXATION

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

	Accelerated tax depreciation <i>HK\$'000</i>	Estimated tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	1,825	(1,825)	–
– as restated	1,825	(1,825)	–
Charge (credit) to income statement for the year	568	(568)	–
Release upon disposal of subsidiaries	(301)	301	–
At 31 March 2003 and 1 April 2003	2,092	(2,092)	–
(Credit) charge to income statement for the year	(237)	237	–
Effect of change in tax rate charge (credit) to income statement for the year	197	(197)	–
At 31 March 2004 and 1 April 2004	2,052	(2,052)	–
(Credit) charge to income statement for the year	(62)	62	–
At 31 March 2005	<u>1,990</u>	<u>(1,990)</u>	<u>–</u>

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

At 31 March 2005, the Group has unused estimated tax losses of HK\$466,798,000 (2004: HK\$359,639,000; 2003: HK\$304,325,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$11,371,000 (2004: HK\$11,726,000; 2003: HK\$13,075,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$455,427,000 (2004: HK\$347,913,000; 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.

29. RETIREMENT BENEFITS SCHEMES

The Group operates Mandatory Provident Fund Scheme (“MPF Scheme”) under the rules and regulations of the Mandatory Provident Fund Authority for all qualifying employees of its Hong Kong subsidiaries. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contributions is matched by employees.

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

The total cost charged to income statements of HK\$677,000 (2004: HK\$855,000; 2003: HK\$1,742,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

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30. RELATED PARTY TRANSACTIONS

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

	Sales income received from related companies			Rental income received from related companies			Management fee received from related companies			Other income received from related companies			Other expense paid to related companies			Promotional fee paid to related companies			Amounts due from related companies			Amounts due to related companies		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	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	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	-	122	-	639	730	634	120	120	30	61	-	-	1,675	-	-	-	1,260	-	75,796	64,069	-	-	-	-
Subsidiaries of a shareholder	-	-	-	295	396	562	-	-	-	43	-	-	20	-	-	-	-	-	7,640	7,668	6,199	467	488	975
Jointly controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,540	82	-	-	-	-

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

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

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

31. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	6	552	727
In the second to fifth year inclusive	-	210	161
	<u>6</u>	<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\$4,107,000 (2004: HK\$3,115,000; 2003: HK\$2,441,000).

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

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	3,188	2,372	1,894
In the second to fifth year inclusive	519	1,412	1,363
	<u>3,707</u>	<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.

FINANCIAL INFORMATION OF THE GROUP

32. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

- (a) At 31 March 2005, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2004: HK\$11,967,000; 2003: HK\$11,967,000) in relation to a guarantee given to the plaintiff. Based on the advice of its legal adviser, the directors are of the view that the Company has meritorious grounds to defence. Accordingly, no provision for this amount has been provided in the financial statements.
- (b) During the year ended 31 March 2004, the Company and eForce Holdings Limited (“eForce”), on a joint and several basis, provided a guarantee to Transmeta in respect of the payment obligations of service fees of China Ever Limited. Pursuant to the agreement between the Company, eForce, China Ever Limited and Transmeta, China Ever Limited shall pay a service fee of US\$66,000 per month to Transmeta for a term of 20 months from 22 November 2003. At the balance sheet date, China Ever Limited had outstanding balance of US\$66,000 with Transmeta.

33. CAPITAL COMMITMENTS

	THE GROUP		
	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of the capital expenditure on the development costs	<u>4,708</u>	<u>1,404</u>	<u>–</u>

34. POST BALANCE SHEET EVENTS

(1) Purchase of assets and licence of technology

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

(a) Purchase of assets

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

(b) Licence of technology

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

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

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

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

FINANCIAL INFORMATION OF THE GROUP

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

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

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

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

(2) **Exercise of warrants**

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

INDEBTEDNESS

INDEBTEDNESS AS AT 31 JULY 2005

At the close of business on 31 July 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$89,450,000. They included (i) interest-bearing short term loan of HK\$70,000,000, which was secured by the leasehold land and building and investment properties of the Group with total carrying value of HK\$99,684,000 as at 31 March 2005; (ii) unsecured short term loans of approximately HK\$18,944,000; (iii) amounts due to related companies of approximately HK\$467,000; and (iv) obligation under finance leases of approximately HK\$39,000.

The Company had contingent liabilities in respect of a pending litigation as a defendant relating to a claim of approximately HK\$12 million as at 31 March 2005, details of which are set out in the paragraph headed "Litigation" in Appendix II to this prospectus. In the opinion of the Directors, the Company had meritorious grounds to defend and accordingly, no provisions for this amount has been provided in the financial statements.

Save as aforesaid or as otherwise disclosed therein and intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 31 July 2005 any mortgages, charges, debentures, or other loan capital or bank overdraft, loans debts securities or similar indebtedness, or any obligation under finance leases or any guarantees or other material contingent liabilities.

Foreign currency amounts have for those purposes been translated into Hong Kong dollars at appropriate rates prevailing at the close of business on 31 July 2005.

The Directors have confirmed that the Group has not incurred any material indebtedness, charges and contingent liabilities of the Group since 31 July 2005.



20 September 2005

The Directors
Culturecom Holdings Limited
12/F, Culturecom Centre
47 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

We report on the pro forma statement of adjusted consolidated net tangible assets (the “Proforma Adjusted NTA”) of Culturecom Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on page 67 of the prospectus dated 20 September 2005 issued by the Company in connection with the private placing of up to 660,000,000 listed warrants being warrants in registered form to subscribe for shares in the capital of the Company at an issued price of HK\$0.038 per warrant (the “Placing”), which has been prepared, for illustrative purposes only, to provide information about how the Placing might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Proforma Adjusted NTA in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Proforma Adjusted NTA and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Proforma Adjusted NTA beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 'Reporting on Pro Forma Financial Information Pursuant to the Listing Rules' issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited net tangible assets as at 31 March 2005 with the published annual report, considering the evidence supporting the adjustments and discussing the Proforma Adjusted NTA with the Directors of the Company.

Because the above work does not constitute an audit or a review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the Proforma Adjusted NTA.

The Proforma Adjusted NTA, which has been prepared based on the audited consolidated financial statements of the Company for the year ended 31 March 2005 as set out in the Company's 2005 annual report dated 22 July 2005, is for illustrative purposes only and, because of its nature, it may not give an indicative financial position of:

- (a) the Company and its subsidiaries as at 31 March 2005 had the Placing occurred on 31 March 2005; or
- (b) the Company and its subsidiaries for any future date.

Opinion

In our opinion:

- (a) the Proforma Adjusted NTA has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company, and
- (c) the adjustments are appropriate for the purposes of the Proforma Adjusted NTA as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Pro forma statement of unaudited adjusted consolidated net tangible assets

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared based on the audited consolidated net tangible assets of the Group as at 31 March 2005 and adjusted to reflect the effect of the Placing. This statement has been prepared for illustrative purposes only and may not give a true picture of the financial position of the Group following the Placing.

	Audited report as at 31 March 2005	Adjustment	Pro forma adjusted net tangible assets of the Group after the Placing
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>
Net tangible assets as at 31 March 2005	267,156	24,130	291,286
Audited consolidated net tangible asset value per Share as at 31 March 2005 based on 3,461,600,000 Shares in issue as at 31 March 2005			<u>HK\$0.077</u>
Unaudited pro forma adjusted net tangible asset value per Share immediately after the Placing based on 3,461,600,000 Shares in issue as at 31 March 2005			<u>HK\$0.084</u>

Notes:

1. The audited consolidated net tangible assets of the Group as at 31 March 2005 are calculated as follows:

	<i>HK\$'000</i>
Audited share capital and reserves of the Group as at 31 March 2005	300,111
<i>Less:</i> Development costs	<u>(32,955)</u>
Audited consolidated net tangible assets of the Group as at 31 March 2005	<u>267,156</u>

2. The expected gross amount of the Placing is approximately HK\$25,080,000. The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.038 per Warrant and deducting the expenses of approximately HK\$950,000.

The Warrants will be issued subject to and with the benefit of a separate instrument by way of deed poll and they will be issued in registered form and will form one class and rank pari passu in all respects with each other.

The Warrants will confer rights to subscribe up to HK\$113,520,000 in aggregate for Shares, at an initial Subscription Price of HK\$0.172 per Share (subject to adjustment).

Upon the Placing becoming unconditional, the Warrants will represent direct obligations of the Company to Warrantheholders as described in the Instrument. The following is a summary of major provisions of the Instrument and the principal terms and conditions of the Warrants as set out on the Warrant certificates. Warrantheholders will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions and the provisions of the Instrument, copies of which will be available at the principal place of business for the time being of the Company in Hong Kong.

1. EXERCISE OF SUBSCRIPTION RIGHTS

- (a) Each Warrantheholder shall have, in respect of the Warrants of which he is the registered holder for the time being the Subscription Rights which may be exercised in whole or in part, but not in respect of a fraction of a Share, at any time on or after 3 October 2005 but not later than 2 October 2007 to subscribe in cash the whole or part, in integral multiples of HK\$0.172 of the amount stated on the certificate for such Warrants which a Warrantheholder is entitled to subscribe for Shares upon exercise of the Subscription Rights represented thereby (the “**Exercise Moneys**”), for fully-paid Shares at a price of HK\$0.172 per Share subject to adjustment as referred to below. Any Subscription Rights which have not been exercised upon the expiry of the Subscription Period will lapse and thereupon the Warrants and the Warrant certificates will cease to be valid for any purpose whatsoever.
- (b) Each Warrant certificate will contain the Subscription Form. In order to exercise his Subscription Rights, a Warrantheholder must complete and sign the Subscription Form and deliver the same and the Warrant certificate to the Warrant registrar in Hong Kong for the time being of the Company and such delivery shall constitute an irrevocable commitment by such Warrantheholder to exercise such Subscription Rights, together with a remittance for the relevant portion of the Exercise Moneys, being the amount of the Subscription Price for the Shares in respect of which the Warrantheholder is exercising his Subscription Rights. In each case compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.
- (c) No fraction of a Share will be allotted but any balance representing fractions of the Exercise Moneys paid on the exercise of the Subscription Rights represented by the Warrant certificate will be paid by the Company to the Warrantheholder, provided always that, if the Subscription Rights represented by one or more Warrant certificates are exercised on the same Subscription Date by the same Warrantheholder then, for the purpose of determining whether any (and if so, what) fraction of a Share arises, such Subscription Rights shall be aggregated; and regard shall be made, where applicable, to the provisions of clause 6(C) of the Instrument.

- (d) The Company has undertaken in the Instrument that any Shares falling to be issued upon the exercise of any of the Subscription Rights represented by the relevant Warrant certificates will be allotted and issued not later than 28 days after the relevant Subscription Date and, taking into account of any adjustment which may have been made pursuant to clause 4 of the Instrument, will rank pari passu with the fully paid Shares in issue on the relevant Subscription Date and will accordingly entitle the holders to participate in all dividends or other distributions declared, paid or made after the relevant Subscription Date and other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be or before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange (as defined in the Instrument) prior to the relevant Subscription Date.
- (e) As soon as practicable after the relevant allotment and issue of Shares (and in any event not later than 28 days after the relevant Subscription Date), there will be issued free of charge to the Warranholder to whom such allotment has been made upon his exercise of any Subscription Rights:
- (i) a certificate for the relevant Shares in the name(s) of such Warranholder(s);
 - (ii) (if applicable) a balancing Warrant certificate in registered form in the name(s) of such Warranholder(s) in respect of any Subscription Rights represented by the relevant Warrant certificate remaining unexercised;
 - (iii) (if applicable) a cheque representing fractions of the Exercise Moneys in respect of the Warranholder's fractional entitlement to Shares as mentioned in sub-paragraph (c) above; and
 - (iv) (if applicable) the certificate evidencing his right to the allotment of such additional nominal amount of the Shares which have not been allotted to him in the event that upon the exercise of the Subscription Rights represented by any Warrant, the amount standing to the credit of the subscription right reserve is not sufficient to pay up in full such additional nominal amount of Shares.

The certificate for Shares arising on the exercise of Subscription Rights, the balancing Warrant certificate (if any) and, the cheque in respect of fractions of the Exercise Moneys in respect of the Warranholder's fractional entitlement to Shares (if any) will be sent by post at the risk of the said Warranholder to the address of such Warranholder (or, in the case of a joint holding, to that one of the joint Warranholders whose name stands first in the register of Warranholders). If the Company agrees, such certificates and cheques may by prior arrangement be retained by the Warrant registrar in Hong Kong for the time being of the Company, to await collection by the relevant Warranholder.

2. ADJUSTMENTS OF SUBSCRIPTION PRICE

The Instrument contains detailed provisions relating to the adjustment of the Subscription Price. The following is a summary of, and is subject to, the adjustment provisions of the Instrument:

- (a) The Subscription Price shall (except as mentioned in sub-paragraphs (b) and (c) below) be adjusted as provided in the Instrument in each of the following cases (but shall however not be adjusted below the nominal value of Shares until the Subscription Right Reserve (as defined in the Instrument) is maintained pursuant to clause 6 of the Instrument):
 - (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
 - (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully-paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
 - (iii) a capital distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such);
 - (iv) a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its Subsidiaries (as defined in the Instrument);
 - (v) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares, at a price which is less than 90% of the market price (calculated as provided in the Instrument) being made by the Company to Shareholders (in their capacity as such);
 - (vi) an issue wholly for cash being made by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Instrument) per new Share is less than 90% of the market price (calculated as provided in the Instrument), or the conversion, exchange or subscription rights of any such issue are altered so that the said total Effective Consideration is less than 90% of such market price;
 - (vii) an issue of Shares being made wholly for cash at a price less than 90% of the market price (calculated as provided in the Instrument); and
 - (viii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchase made on the Stock Exchange or any other stock exchange recognised for this purpose by the Executive Director of the Corporate Finance Division of the SFC and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Subscription Price.

- (b) Except as mentioned in sub-paragraph (c) below, no such adjustment as is referred to in sub-paragraph (a) (ii) to (vii) above shall be made in respect of:
- (i) an issue of fully-paid Shares upon the exercise of any conversion, exchange or subscription rights attaching to securities wholly or partly convertible into Shares or exchangeable for Shares or upon the exercise of any right (including the Subscription Rights) to acquire Shares;
 - (ii) an issue by the Company of Shares or by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
 - (iii) an issue of fully-paid Shares by way of capitalisation of all or part of the Subscription Right Reserve to be established in certain circumstances pursuant to the terms and conditions contained in the Instrument (or other profits or reserves or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into or exchangeable for or carrying rights to acquire Shares);
 - (iv) an issue of Shares pursuant to a scrip dividend scheme in lieu of a cash dividend where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated as provided in the Instrument) of such Shares is not more than 110% of the amount of dividend which Shareholders could elect to or would otherwise receive in cash;
 - (v) an issue by the Company of Shares or by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for Shares pursuant to a “Share Option Scheme” (as defined in the Instrument); or
 - (vi) the issue of the Warrants.
- (c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above, in any circumstances where the Directors shall consider that an adjustment to the Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with a different time from that provided for under the said provisions, the Company may appoint either an approved merchant bank (as defined in the Instrument) or the Auditors (as defined in the Instrument) to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would not or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or the Auditors (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified, or an adjustment made instead of no adjustment, in such manner (including, without limitation,

making an adjustment calculated on a different basis) and/or such adjustment shall take effect from such other date and/or time as shall be certified by such approved merchant bank or the Auditors (as the case may be) to be in its opinion fair and reasonable.

- (d) Any adjustment to the Subscription Price shall be made to the nearest one cent (HK\$0.005 being rounded up). No adjustment shall be made to the Subscription Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward. In no event shall an adjustment be made (otherwise than upon the consolidation of Shares into shares of a larger nominal amount each or upon a repurchase of Shares) which would increase the Subscription Price.
- (e) Every adjustment to the Subscription Price shall be certified by the Auditors or an approved merchant bank and notice of each such adjustment (giving the relevant particulars) shall be given to the Warrantheolders. In giving any certificate or making any adjustment hereunder, the Auditors or the approved merchant bank shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest error, their decision shall be conclusive and binding on the Company and the Warrantheolders and all persons claiming through or under them respectively. Any such certificates of the Auditors and/or approved merchant bank will be available for inspection by Warrantheolders at the principal place of business of the Company in Hong Kong, where copies may be obtained.

3. REGISTERED WARRANTS

The Warrants will be issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or as required by law, be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it shall have express or other notice thereof.

4. SUBSCRIPTION RIGHT RESERVE

The Instrument provides that, subject to such provision not contravening any laws of Bermuda for the time being applicable to the Company, if the Company does any act which would result in the Subscription Price being reduced below the par value of a Share, a subscription right reserve is to be created and applied in paying up the difference between the Subscription Price and the par value of a Share on any exercise of the Warrants.

5. TRANSFER, TRANSMISSION AND REGISTER

The Subscription Rights conferred by the Warrants shall be transferable in integral multiples of HK\$0.172 by instrument of transfer in any usual or common form or such other forms as may be approved by the Directors or, where the transferor and/or the transferee is HKSCC Nominees Limited (or its successor(s)), by an instrument of transfer executed under hand by authorised person(s) or by machine imprinted signature(s). The Company shall maintain a register of Warrantheolders in the territory where the Stock Exchange for the time being is situated (or in such other places as the Directors consider

appropriate, having regard to applicable roles governing the listing of Warrants). The Instrument contains provisions relating to the transfer, transmission and registration of the Warrants. Transfers of Warrants must be executed by both the transferor and the transferee.

Persons who hold the Warrants and have not registered the Warrants in their own names and wish to exercise the Warrants may incur additional costs and expenses in connection with any expedited re-registration of the Warrants prior to the transfer or exercise of the Warrants, particularly during the period commencing 10 business days prior to and including the last day for subscription should note that additional costs and expenses may be incurred in connection with any expedited re-registration of the Warrants prior to the transfer or exercise of the Subscription Rights, in particular during the period commencing 10 business days prior to and including the last day of the Subscription Period.

Since the Warrants will be admitted to CCASS, so far as applicable laws or regulations of relevant regulatory authorities, terms of the Instrument and circumstances permit, the Company may determine the last trading day of the Warrants to be a date at least three trading days before 2 October 2007.

6. CLOSURE OF REGISTER OF WARRANTHOLDERS

The registration of transfers of Warrants may be suspended and the register of Warrantholders may be closed for such period as the Directors may from time to time direct, provided that the same shall not be closed, or registration may not be suspended, for a period, or for periods together, of more than 30 days in any one year. Any transfer or exercise of the Subscription Rights attaching to the Warrants made while the register of Warrantholders is so closed shall, as between the Company and the person claiming under the relevant transfer of Warrants or, as the case may be, as between the Company and the Warrantholder who has so exercised the Subscription Rights attaching to his Warrants (but not otherwise), be considered as made immediately after the reopening of the register of Warrantholders.

7. PURCHASE AND CANCELLATION

The Company or any of its subsidiaries may at any time purchase the Warrants:

- (a) in the open market or by tender (available to all Warrantholders alike) at any price;
- (b) by private treaty at a price, exclusive of expenses, not exceeding 110% of the closing price of the Warrants on the Stock Exchange on the date immediately prior to the date of purchase thereof, but not otherwise.

All Warrants purchased aforesaid shall be cancelled forthwith and may not be reissued or re-sold.

8. MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS

- (a) The Instrument contains provisions for convening meetings of Warrantholders to consider any matter affecting the interests of Warrantholders, including the modification by "Special Resolution" (as defined in the Instrument) of the provision for the Instrument and/or of the terms and conditions endorsed on the Warrant certificates. A Special Resolution duly passed at any such meeting shall be binding on the Warrantholders, whether present or not.

- (b) All or any of the rights for the time being attached to the Warrants (including any of the provisions of the Instrument) may from time to time (whether or not the Company is being wound up) be altered or abrogated (including, but without prejudice to that generality, by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the terms and conditions endorsed on the Warrants certificates and/or the Instrument) with the prior sanction of a Special Resolution and may be effected only by deed poll executed by the Company and expressed to be supplemental to the Instrument.

Where the Warrantholder is a recognised clearing house (within the meaning of the SFO) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house (or its nominee(s)) or its nominee(s) could exercise as if such person was an individual Warrantholder.

9. QUORUM

The quorum of a meeting of Warrantholders shall be two or more Warrantholders, present in person or by proxy, representing in aggregate not less than 2% in value of the Subscription Rights for the time being outstanding and exercisable (except for the purpose of passing a Special Resolution (as defined in the Instrument)) and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business.

The quorum of a meeting of Warrantholders for the passing of a Special Resolution shall be two or more persons holding Warrants and/or being proxies and being or representing in the aggregate holders of not less than 5% in value of the Subscription Rights for the time being outstanding and exercisable.

10. REPLACEMENT OF WARRANT CERTIFICATES

If a Warrant certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the Warrant registrar for the time being of the Company in Hong Kong (unless the Directors otherwise determine) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence (including execution of statutory declaration(s)), indemnity and/or security as the Company may require and on payment of such fee not exceeding HK\$2.50 (or such other amount as may from time to time be permitted under the rules prescribed by the Stock Exchange) as the Company may determine. Mutilated or defaced Warrant certificates must be surrendered before replacements will be issued.

11. PROTECTION OF SUBSCRIPTION RIGHTS

The Instrument contains certain undertakings by and restrictions on the Company designed to protect the Subscription Rights.

12. DISTRIBUTION AND FURTHER ISSUES OF SECURITIES BY THE COMPANY

Save as referred to above, Warranholders will not be entitled as of right to participate in any distributions or further issues of securities by the Company prior to exercise of Subscription Rights attaching to the Warrants. However, as referred to above, the Instrument contains provisions relating to the adjustment of the Subscription Price in such circumstances and certain restrictions on the power of the Company to make such distributions and issues.

13. CALL

If at any time the aggregate of the Warrants which have not been exercised carry rights to subscribe less than HK\$11,352,000, the Company may, on giving not less than three months' notice, require Warranholders either to exercise their Subscription Rights or to allow them to lapse. On expiry of such notice, all unexercised Warrants will be automatically cancelled without compensation to Warranholders.

14. ISSUE OF FURTHER WARRANTS

The Company shall be at liberty to issue further warrants to subscribe for Shares in such manner and on such terms as it sees fit.

15. UNDERTAKINGS OF THE COMPANY

The Company has undertaken in the Instrument, inter alia, that:

- (a) all Shares allotted on the exercise of Subscription Rights shall, taking into account of any adjustment which may have been made as described in paragraph 2 above, rank *pari passu* in all respects with the fully paid Shares in issue on the relevant Subscription Date and shall accordingly entitle the holders to participate in full in all dividends or other distributions declared, paid or made on the Shares after the relevant Subscription Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange prior to the relevant Subscription Date;
- (b) it will send to each Warranholder (or in the case of joint Warranholders, to the Warranholder whose name stands first in the register of Warranholders in respect of the Warrant held by such joint Warranholders), at the same time as the same are sent to the Shareholders, its audited accounts and all other notices, reports and communications despatched by it to the Shareholders generally;
- (c) it will pay all Bermuda and Hong Kong stamp and capital duties, registration fees or similar charges (if any) payable in respect of the execution of the Instrument, the creation and initial issue of the Warrants in registered form, the exercise of the Subscription Rights and the issue of Shares upon exercise of the Subscription Rights. If any Warranholder shall take any action or proceedings in any jurisdiction to enforce the obligations of the Company in respect of the Warrants or the Instrument, and for the purposes of such action or proceedings

the Instrument or any Warrant is taken into such jurisdiction and any stamp duties or similar duties or taxes become payable thereon or in respect thereof in connection with or as a result of such action or proceedings, the Company shall not be under any obligation to pay (or reimburse any person making payment of) any such duties or taxes (including, if applicable, any penalties);

- (d) it will keep available for issue sufficient Ordinary Capital (as defined in the Instrument) to satisfy in full all rights for the time being outstanding of subscription for and conversion into Shares;
- (e) it will use its best endeavours to procure that:
 - (i) at all times during the Subscription Period, the Warrants may be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Warrants on the Stock Exchange is withdrawn following an offer for all or any of the Warrants); and
 - (ii) all Shares allotted upon exercise of the Subscription Rights may, upon allotment or as soon as reasonably practicable thereafter, be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Shares on the Stock Exchange is withdrawn following an offer for all or any of the Shares where a like offer is extended to holders of the Warrants).

16. LISTING OF THE WARRANTS

The Company shall use its best endeavours to procure that:

- (i) at all times during the Subscription Period, the Warrants may be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Warrants on the Stock Exchange is withdrawn following an offer for all or any of the Warrants); and
- (ii) all Shares allotted and issued upon exercise of the Subscription Rights may, upon allotment or as soon as reasonably practicable thereafter, be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Shares on the Stock Exchange is withdrawn following an offer for all or any of the Shares where a like offer is extended to holders of the Warrants).

17. OVERSEAS WARRANTHOLDERS

If a Warrantholder has a registered address in any territory (other than Hong Kong) where, in the opinion of the Directors, the allotment of Shares to such Warrantholder upon exercise of any subscription Rights would or might, in the absence of compliance with registration or any other special formalities in such territory, be unlawful or impracticable under the laws of such territory, then the Company shall as soon as practicable after exercise by such Warrantholder of any Subscription Rights either:

- (a) allot the Shares which would otherwise have been allotted to such Warrantholder to one or more third parties selected by the Company; or
- (b) allot such Shares to such Warrantholder and then, on his behalf, sell them to one or more third parties selected by the Company, in each case for the best consideration then reasonably obtained by the Company.

As soon as reasonably practicable following any such allotment or (as the case may be) allotment and sale, the Company shall pay to the relevant Warrantholder an amount equal to the consideration received by the Company therefor (but having deducted therefrom all transaction levies, brokerages, commissions, stamp duties, withholding tax and similar charges and taxes, if any payable in respect of such sale only, in the case of an allotment and sale as aforesaid, and such payment).

18. RIGHTS OF WARRANTHOLDERS ON WINDING-UP OF THE COMPANY

The Instrument contains provisions relating to the winding-up of the Company.

If an effective resolution is passed during the Subscription Period for the voluntary winding-up of the Company, then:

- (a) if such winding-up is for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some persons designated by them for such purpose by Special Resolution, shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all Warrantholders; and
- (b) in any other case, every Warrantholder (or in the case of joint Warrantholders, to the Warrantholder whose name stands first in the register of Warrantholders in respect of the Warrant held by such joint Warrantholders) shall be entitled at any time within six weeks after the passing of such resolution by irrevocable surrender of his Warrant certificate(s) to the Warrant registrar in Hong Kong for the time being of the Company with the Subscription Form(s) duly completed, together with payment of the Exercise Moneys (or the relative portion thereof), to elect to be treated as if he had immediately prior to the commencement of such winding-up exercised such of the Subscription Rights represented by such Warrant(s) as are specified in the Subscription Form(s) submitted by him and had on such date been the Shareholder to which he would have become entitled pursuant to such exercise and the Company and the liquidator of the Company shall give effect to such election accordingly.

The Company shall give notice to the Warranholders of the passing of any such resolution within seven days after the passing thereof and such notice shall contain a reminder to Warranholders with respect to their rights under this sub-paragraph (b) (to the extent applicable).

Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the date of the passing of such resolution shall lapse and Warrant certificates will cease to be valid for any purpose.

19. NOTICES

The Instrument contains provisions relating to notices to be given to Warranholders.

Every Warranholder shall register with the Company an address either in Hong Kong or elsewhere to which notices to be given to such Warranholder are to be sent.

20. GOVERNING LAW

The Instrument and the Warrants are governed by and construed in accordance with the laws of Hong Kong.

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Interests in the Shares

Name of Director	Capacity	Nature of interests	Number of Shares held
Mr. Chu	(i) Beneficial owner	Personal interest	220,180,000
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (Note)
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000

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.

All interests stated above represent long positions.

Interests in the share options of the Company

Name of Director	Capacity	Nature of interests	Number of share options	Exercise price per Share <i>HK\$</i>	Exercisable period
Mr. Cheung Wai Tung	(i) Beneficial owner	Personal interest	4,565,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	4,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Chu	(i) Beneficial owner	Personal interest	10,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) Beneficial owner	Personal interest	2,000,000	1.680	3 March 2000 to 2 March 2010
Mr. Cheung Kam Shing, Terry	(i) Beneficial owner	Personal interest	3,000,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	3,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Henry Chang Manayan	(i) Beneficial owner	Personal interest	1,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) Beneficial owner	Personal interest	500,000	1.680	3 March 2000 to 2 March 2010
	(iii) Beneficial owner	Personal interest	1,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Wan Xiaolin	(i) Beneficial owner	Personal interest	1,000,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	3,000,000	0.265	19 December 2003 to 18 December 2013

All interests stated above represent long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the

Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

- (b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Interests in Shares

Name	Capacity	Nature of interests	Number of Shares held
Mr. Chu	(i) Beneficial owner	Personal interest	220,180,000
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (Note)

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

All interests stated above represent long positions.

Interests in the share options of the Company

Name of Director	Capacity	Nature of interests	Number of share options
Mr. Chu	Beneficial owner	Personal interest	12,000,000

The interest stated above represents long position.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such

capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

- (c) As at the Latest Practicable Date, each of the Placing Agent and the Placing Manager did not have any interest in any shares or other securities of the Company or any of its subsidiaries or the rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for such shares or securities.
- (d) As at the Latest Practicable Date, there were no existing or proposed service contracts between the Company or any of its subsidiaries and any of the Directors which do not expire or are not determinable within one year without payment of compensation (other than statutory compensation).
- (e) Save as disclosed in this prospectus, as at the Latest Practicable Date, none of the Directors, the Placing Agent or the Placing Manager had any direct or indirect interest in any assets which have been, since 31 March 2005, the date to which the latest audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.
- (f) Save as disclosed in this prospectus, there was no contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which was significant in relation to the business of the Group taken as a whole.

3. PLACING AGREEMENT

Pursuant to the Placing Agreement, the Placing Agent has agreed, among other matters, to place up to 660,000,000 Warrants on a best endeavours basis. The placeses shall be individual, corporate and/or institutional investors and securities dealers independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined in the Listing Rules).

4. WORKING CAPITAL SUFFICIENCY STATEMENT

The Directors are of the opinion that, taking into account the present available loan facilities, the internal resources of the Group and the expected net issue proceeds of the Placing and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirement.

5. MATERIAL CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published audited consolidated financial statements of the Group had been made up.

6. LITIGATION

In 2000, Times Ringier (HK) Limited (the “Plaintiff”) claimed against the Company as the second defendant for the sum of HK\$11,966,523.72, being the alleged amount outstanding from March 2000 to 2 June 2000 of the price of “Tin Tin Daily News” printed and produced by the Plaintiff at the request of Tin Tin Publication Development Limited and for its account together with interest thereon, in respect of which it was alleged that the Company as the second defendant had agreed to indemnify and keep the Plaintiff indemnified fully for any loss and damage that the Plaintiff may have suffered. The action has been set down for trial on 31 October 2005. Counsel advised that the Company has meritorious grounds to defend. Accordingly, no provision for the alleged amount has been made.

In May 2003, Winway H.K. Investments Limited (“Winway”), a wholly owned subsidiary of the Company, has placed 300,000,000 shares (“Q9 Shares”) of Q9 Technology Holdings (“Q9 Technology”) with TKR Finance Limited (“TKR Finance”) for safe custody and to facilitate management of the Q9 Shares. These Q9 Shares were not placed nor pledged as securities or collateral to secure any financing or whatsoever, but only to facilitate their management because Winway did not want to hold these Q9 Shares in physical scrip and to facilitate transfer in future. For these reasons, Winway retained the legal and beneficial title to the Q9 Shares at all material times. In June 2004, Winway was informed by Q9 Technology that it had received a copy of the disclosure of interests form filed pursuant to the Securities and Futures Ordinance by the provisional liquidator of TKR Finance claiming security interests in the Q9 Shares, of which Winway had no prior knowledge nor given any consent thereto. Further, Winway was not aware of any matters that may lead to such consequence. Upon receipt of such information, Winway had sought legal advice and had notified the provisional liquidator of TKR Finance about its title to the Q9 Shares and demanded the return of the same from TKR Finance. As at the Latest Practicable Date, Winway is positively seeking a feasible resolution and negotiating with the relevant parties to reclaim the Q9 Shares. The Board considered that this matter would not have any material impact on the financial position or operations of the Group and accordingly, no provision has been made in respect of the market value of the Q9 Shares of approximately HK\$6,600,000 as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened or against the Company or any of its subsidiaries.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) the Asset Purchase Agreement;
- (b) the Licence Agreement;

- (c) the conditional placing agreement dated 2 June 2005 entered into between the Company and Kim Eng Securities (Hong Kong) Limited in relation to the placing of 7.75% convertible redeemable bonds due 2010 to be issued by the Company in the aggregate principal amount of up to HK\$300,000,000 (which had subsequently been terminated by mutual agreement on 29 July 2005);
- (d) the Placing Agreement; and
- (e) the subscription agreement entered into between Culture.com Technology as issuer, and REXCAPITAL International Holdings Limited as subscriber on 30 August 2005 in relation to the subscription of 100 new shares of HK\$1.00 each in the share capital of Culture.com Technology, representing 10% of the enlarged issued share capital of Culture.com Technology at completion of such subscription agreement, at a consideration equivalent to the lower of the sum of HK\$73,500,000 or 10% of the valuation value of such new shares in Culture.com Technology.

8. QUALIFICATION OF EXPERT

The qualification of the expert who has given opinions and/or whose name is included in this prospectus is as follows:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to any member of the Group respectively, since 31 March 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

9. CONSENT OF EXPERT

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this prospectus with a letter dated 20 September 2005 in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group and the references to its name in the form and context in which they respectively appear.

10. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

11. DIRECTOR'S INTERESTS IN COMPETING BUSINESSES

As at Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

12. MISCELLANEOUS

- (a) The expenses in connection with the issue of the Warrants and the application for the listing, including placing commission, documentation fee, registration, printing, translation, legal and accountancy charges, registrars and advertising expenses payable by the Company, are estimated to amount to approximately HK\$950,000.
- (b) There is no minimum subscription to be raised by the Placing in order to provide the sums required to cover the matters referred to in section 28 of the Companies Act as this prospectus has been accepted by an appointed stock exchange.
- (c) No commissions, discounts, brokerages or other special terms have been granted or agreed to be granted by any member of the Group to any Directors or proposed Directors, promoters in connection with the issue or sale of any capital by any such member of the Group.

13. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES IN HONG KONG AND IN BERMUDA

A copy of this prospectus, having attached thereto a copy of the application form for the Warrants and the written consent referred to in the paragraph headed "Consent of expert" in this Appendix, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of Companies Ordinance of Hong Kong. A copy of this prospectus, having attached thereto a copy of the application form for the Warrants, has been filed or will, as soon as reasonably practicable, be filed with the Registrar of Companies in Bermuda.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong at 12 Floor, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong during normal business hours up to and including 4 October 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;
- (c) the written consent referred to in the paragraph headed "Consent of expert" in this Appendix;
- (d) a draft of the Instrument, a summary of the principal terms of which is set out in Appendix I to the prospectus;
- (e) the audited consolidated financial statements of the Company for the three financial years ended 31 March 2003, 31 March 2004 and 31 March 2005; and
- (f) the letter from Deloitte Touche Tohmatsu issued on 20 September 2005 as set out in the section headed "Unaudited Pro Forma Financial Information" to the prospectus.