

1. GENERAL

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

The Company acts as an investment holding company and its subsidiaries are principally engaged in publishing, development of the Chinese language computer operation systems and investment holding.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiaries over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries and associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary and associate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

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.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Revenue recognition

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

Advertising income is recognised on the publication date of the advertisement.

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

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

Revenue from sales of air ticketing and hotel reservation services is recognised when the tickets are delivered to customers and visitors have checked in.

Investments in securities

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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

Leasehold land	Over the terms of the leases
Buildings	5%
Leasehold improvements	10% or over the terms of the leases
Plant and machinery	7% to 20%
Vehicles, furniture and equipment	15% to 20%

Computer software under development is stated at cost which includes all development expenditure and other direct costs attributable to such software. Computer software under development is not depreciated until the software is ready for its intended use. Depreciation will be provided to write off the cost over five years on a straight-line method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation subject to a maximum of five years.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars and which operate in the People's Republic of China (the "PRC") are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Operating leases

Leases of assets in respect of which substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases. Rental expenses paid or payable under operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective leases.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits scheme

The pension costs charged in the income statement represent the amount of contributions payable to the Group's defined contribution scheme.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

3. SEGMENTAL INFORMATION

The Group's turnover and contribution to operating results for the year ended 31st March, 2001, analysed by principal activity, are as follows:

	2001		2000	
	Turnover	Contribution to operating results	Turnover	Contribution to operating results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:				
Publishing and related business	44,422	(17,165)	122,860	(25,729)
Retailing	6,284	(7,910)	7,010	(6,413)
	50,706	(25,075)	129,870	(32,142)
Discontinued operations (Note 7):				
Air ticketing and hotel reservation services	37,919	493	26,036	1,942
Printing	—	—	5,581	(25,442)
	37,919	493	31,617	(23,500)
	88,625		161,487	
Loss from operations		(24,582)		(55,642)

The Group's activities are primarily based in Hong Kong and more than 90% of the Group's turnover and operating results are derived from Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

4. OTHER REVENUE

Included in other revenue is bank interest income amounting to approximately HK\$14,459,000 (2000: HK\$1,848,000).

5. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emolument (note 8)	5,400	4,247
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$113,000 (2000: HK\$1,316,000)	173	29
Redundancy payments	685	1,805
Other staff costs	33,294	86,923
	39,552	93,004
Less: amount capitalised in the development costs	5,752	7,561
	33,800	85,443
Auditors' remuneration	1,157	985
Depreciation	9,200	13,474
Less: amount capitalised in the development costs	—	321
	9,200	13,153
Loss on disposal of property, plant and equipment	614	3,148
Operating lease rentals in respect of rented premises	2,749	1,876
Management fees received from related companies	(1,310)	(2,756)
Net property rental income under operating leases, net of direct outgoings of HK\$149,000 (2000: HK\$59,000)	(3,381)	(1,430)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank borrowings wholly repayable within five years	316	2,997
Interest on finance leases	—	647
	316	3,644

7. DISCONTINUED OPERATIONS

During the year, the Group disposed of its wholly-owned subsidiaries, Asiadworld Cyberlink Limited (formerly known as Supreme Success Company Limited), Oscar Group Services Limited and Power Vision Development Limited whose subsidiaries are principally engaged in the provision of air ticketing and hotel reservation services to an associate. During the year ended 31st March, 2001 and prior to its disposal, business of provision of air ticketing and hotel reservation services had a turnover of approximately HK\$37,919,000 and an operating profit of approximately HK\$493,000. The gain on disposal amounted to approximately HK\$439,000.

During the year ended 31st March, 2000, the Group disposed of its wholly-owned subsidiaries, Fineview Properties Limited and Culturecom Printing House Limited which carried on the printing business of the Group and operated in Hong Kong, to an independent third party. During the year ended 31st March, 2000 and prior to its disposal, the printing business of the Group had a turnover of approximately HK\$5,581,000 and an operating loss of approximately HK\$25,442,000. The gain on disposal amounted to approximately HK\$1,713,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Directors' remuneration:		
Fees:		
Executive directors	450	280
Independent non-executive directors	120	120
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	570	400
	<hr/>	<hr/>
Other emoluments:		
Executive directors:		
Salaries and other benefits	4,710	3,727
Independent non executive directors:		
Salaries and other benefits	120	120
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	4,830	3,847
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	5,400	4,247
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Emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	2	6
HK\$1,000,001 – HK\$1,500,000	5	2
	<hr/>	<hr/>
	7	8
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8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2000: two) were directors of the Company whose emoluments are included in the disclosure in note 8(a) above. The emoluments of the remaining one (2000: three) individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	1,560	2,682
Contributions to staff retirement scheme	—	—
	1,560	2,682

Emoluments of these employees were within the following bands:

	Number of employees	
	2001	2000
Nil – HK\$1,000,000	—	1
HK\$1,000,001 – HK\$1,500,000	1	2
	1	3

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For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

9. TAXATION CREDIT

	2001 HK\$'000	2000 HK\$'000
The credit comprises:		
Hong Kong Profits Tax		
Current year	—	(332)
Overprovision in prior years	110	50
Deferred taxation (Note 26)	—	1,268
	110	986

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year. The taxation credit represents the overprovision of Hong Kong Profits Tax in previous years.

10. (LOSS) PROFIT FOR THE YEAR

Of the Group's loss for the year of HK\$59,495,000 (2000: a profit of HK\$5,198,000), a loss of HK\$161,303,000 (2000: a profit of HK\$737,000) has been dealt with in the financial statements of the Company.

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2001 HK\$'000	2000 HK\$'000
(Loss) earnings for the purposes of calculating the basic (loss) earnings per share	(59,495)	5,198
Weighted average number of shares for the purposes of calculating the basic (loss) earnings per share	2,676,088,809	2,009,990,475
Effect of dilutive potential shares on exercise of options and warrants		238,758,073
		2,248,748,548

No diluted loss per share has been presented as full exercise of outstanding share options granted and warrants would result in reduction in loss per share in 2001.

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For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Vehicles, furniture and equipment HK\$'000	Computer software under development HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st April, 2000	128,400	30,005	16,995	56,819	13,918	246,137
Additions	—	711	2,673	13,186	140	16,710
Disposals	—	(742)	—	(1,391)	—	(2,133)
Eliminated on disposal of subsidiaries	—	—	(4,410)	(17,911)	—	(22,321)
At 31st March, 2001	128,400	29,974	15,258	50,703	14,058	238,393
DEPRECIATION						
At 1st April, 2000	21,813	14,737	13,639	41,304	—	91,493
Provided for the year	2,254	3,069	797	3,080	—	9,200
Eliminated on disposals	—	(336)	—	(1,149)	—	(1,485)
Eliminated on disposal of subsidiaries	—	—	(3,141)	(15,722)	—	(18,863)
At 31st March, 2001	24,067	17,470	11,295	27,513	—	80,345
PROVISION FOR IMPAIRMENT						
LOSS						
At 1st April, 2000	50,841	—	1,535	5,359	—	57,735
Eliminated on disposal of subsidiaries	—	—	(1,263)	(1,679)	—	(2,942)
At 31st March, 2001	50,841	—	272	3,680	—	54,793
NET BOOK VALUES						
At 31st March, 2001	53,492	12,504	3,691	19,510	14,058	103,255
At 31st March, 2000	55,746	15,268	1,821	10,156	13,918	96,909

The leasehold land and buildings of the Group at 31st March, 2001 are situated in Hong Kong and held under medium term leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

13. DEVELOPMENT COSTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of the year	12,706	—
Additions	12,569	12,706
Balance at end of the year	25,275	12,706

Development costs represent expenditure incurred for the development of the Chinese language computer operating system. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation of five years.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	374,246	374,246
Amounts due from subsidiaries	728,955	445,623
	1,103,201	819,869
Less: Impairment loss recognised	(455,904)	(293,537)
	647,297	526,332

NOTES TO THE FINANCIAL STATEMENTS

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CULTURECOM HOLDINGS LIMITED 2000-2001

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at 31st March, 2001 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Group	Principal activities
			%	
Access Com Technology Limited	British Virgin Islands	1 share of US\$1	100	Investment holding
Chinese 2000 Technology Limited	Hong Kong	2 shares of HK\$1 each	100	Development of the Chinese language computer operation system
Citicomics Limited	Hong Kong	2 shares of HK\$1 each	100	Publishing
Culturecom Centre Limited	Hong Kong	2 shares of HK\$1 each	100	Property holding
Culturecom Development Limited	Hong Kong	2 shares of HK\$1 each	100	Marketing
Culturecom e-publication Limited	Hong Kong	2 shares of HK\$1 each	100	Development of electronic publication
Culturecom Enterprises Limited	Hong Kong	2 shares of HK\$1 each	100	Management services
Culturecom Holdings (BVI) Limited	British Virgin Islands	2 shares of US\$1 each	100	Investment holding
Culturecom Limited	Hong Kong	10,000 shares of HK\$ 0.1 each	100	Investment holding and publishing
Culturecom Investments Limited	Hong Kong	2 shares of HK\$1 each	100	Investment holding and securities trading
Culturecom Retail Limited	Hong Kong	2 shares of HK\$1 each	100	Comics retailing

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CULTURECOM HOLDINGS LIMITED 2000-2001

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Group %	Principal activities
Culture.com Technology (BVI) Limited	British Virgin Islands	1 share of US\$1 each	100	Investment holding
CultureKid i-shop (HK) Limited	Hong Kong	2 shares of HK\$1 each	100	Retailing and development of computer application software
Growlong Company Limited	Hong Kong	10,000 shares of HK\$1 each	100	Licensing
Fighting Spirit Technology Limited	British Virgin Islands	10 shares of US\$1 each	100	Development of computer application software
Polluquin Holdings Limited	British Virgin Islands	10,000 shares of US\$1 each	100	Investment holding

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

All the principal subsidiaries above have their principal place of operation in Hong Kong.

None of the principal subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the Group or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	—	2,463	—	—
Loans to associates	72,075	884	3,970	—
	72,075	3,347	3,970	—

The loans are unsecured, interest free and have no fixed terms of repayment. In the opinion of the Directors, the loans are unlikely to be received within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the Group's principal associates as at 31st March, 2001 are as follows:

Name	Place of incorporation	Proportion of nominal value of issued share capital/ registered capital held by the Group	Principal activities
		%	
*Asiaword Hotel Systems (Shanghai) Limited	PRC	30	Design and development of hotel management system software
Asiaworld Travel Limited	Hong Kong	30	Sales of air ticketing and hotel reservation services
Asiaworld Cyberlink Limited (formerly known as Supreme Success Company Limited)	British Virgin Islands	30	Investment holding
Campbell Travel Limited	Canada	30	Travel services
GlobalRes Group Limited	British Virgin Islands	30	Investment holding

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CULTURECOM HOLDINGS LIMITED 2000-2001

15. INTERESTS IN ASSOCIATES (Continued)

Name	Place of incorporation	Proportion of nominal value of issued share capital/ registered capital held by the Group	Principal activities
		%	
GlobalRes Digital Travel Service Limited (formerly known as GlobalRes Limited)	Hong Kong	30	Provision of computer and telecommunications services to travel agents
Many Way Limited	Hong Kong	30	Travel services
*Qcode Information Technology Limited	Hong Kong	30	Development, packing and retailing of the Chinese language encryption software
*Signal Technology Limited	British Virgin Islands	30	Investment holding
*Snow Drop Management Limited	British Virgin Islands	30	Investment holding

* Associates not audited by Deloitte Touche Tohmatsu.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the Group or formed 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.

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CULTURECOM HOLDINGS LIMITED 2000-2001

16. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:						
Listed						
Hong Kong	—	8,833	26,781	—	26,781	8,833
Overseas	—	—	1,467	—	1,467	—
	—	8,833	28,248	—	28,248	8,833
Unlisted	37,280	1,928	—	—	37,280	1,928
	37,280	10,761	28,248	—	65,528	10,761
Market value of listed securities	—	6,002	28,248	—	28,248	6,002
Carrying amount analysed for reporting purpose as:						
Current	—	—	28,248	—	28,248	—
Non-current	37,280	10,761	—	—	37,280	10,761
	37,280	10,761	28,248	—	65,528	10,761

At 31st March, 2001, included in investment securities above is the Group's investment in LifeTech Enterprises, Inc., ("LifeTech") with a carrying amount of HK\$35,057,000. The investment represent 23% of the issued share capital of LifeTech. LifeTech is not regarded as an associate of the Group because the Group has no significant influence over its management and operation.

At 31st March, 2000, included in investment securities was the amount of listed securities in Hong Kong which represented the ordinary shares of Asia Orient Holdings Limited ("Asia Orient"), a company incorporated in Bermuda with its securities listed in the Stock Exchange. The shares were allotted to the Group as part of the consideration for the disposal of the Group's interest in a subsidiary, Signal Technology Limited to a subsidiary of Asia Orient.

In the opinion of the directors, the investment securities are worth at least their carrying amount.

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For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

17. INVENTORIES

The inventories of the Group represents finished goods which are stated at cost at the balance sheet date.

18. 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	
	2001	2000
	HK\$'000	HK\$'000
0 – 60 days	4,953	11,267
61 – 90 days	1,982	2,783
Over 90 days	2,429	7,114
	9,364	21,164

19. TRADE CREDITORS

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

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 – 60 days	3,603	6,200
61 – 90 days	628	1,009
Over 90 days	2,907	6,264
	7,138	13,473

20. BORROWINGS FROM A SUBSIDIARY OF A FORMER SHAREHOLDER

The amount was unsecured, bearing interest at prime rate and was fully repaid during the year.

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21. BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank overdrafts repayable on demand		
Secured	—	559
Unsecured	—	576
	—	1,135

22. SHARE CAPITAL

	Number of shares		Share capital	
	2001	2000	2001	2000
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each				
<i>Authorised</i>				
At 1st April	3,000,000,000	2,000,000,000	300,000	200,000
Increase during the year	1,000,000,000	1,000,000,000	100,000	100,000
At 31st March	4,000,000,000	3,000,000,000	400,000	300,000
<i>Issued and fully paid</i>				
At 1st April	2,539,919,642	1,435,159,642	253,992	143,516
Exercise of share options	29,000,000	269,000,000	2,900	26,900
Exercise of warrants	141,240,000	204,760,000	14,124	20,476
Placement of shares	—	631,000,000	—	63,100
At 31st March	2,710,159,642	2,539,919,642	271,016	253,992

- (a) Pursuant to a special resolution passed on 21st May, 1999, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$300,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.1 each in the Company. These shares rank pari passu in all respects with the existing shares in issue.

22. SHARE CAPITAL (Continued)

- (b) On 26th May, 1999, the Company issued and allotted an aggregate of 286,000,000 new shares of HK\$0.1 each in the Company, at a price of HK\$0.16 per share as consideration for the acquisition of the entire issued share capital of Fighting Spirit Technology Limited. The price of HK\$0.16 per share represents a discount of approximately 49% to the closing share price of the Company as quoted on the Stock Exchange on that date.
- (c) On 19th July, 1999, the Company issued and allotted an aggregate of 85,000,000 new shares of HK\$0.1 each in the Company, at a price of HK\$0.435 per share as consideration for the acquisition of the entire issued share capital of Snow Drop Management Limited. The price of HK\$0.435 per share represents a premium of approximately 2% to the closing share price of the Company as quoted on the Stock Exchange on that date.
- (d) Pursuant to a placing and subscription agreement dated 12th January, 2000, the Company issued 110,000,000 new shares of the Company at a price of HK\$0.5 each representing a discount of 5.7% to the closing share price of the Company as quoted on the Stock Exchange on that date.
- (e) Pursuant to a placing and subscription agreement dated 17th February, 2000, the Company issued 150,000,000 new shares of the Company at a price of HK\$2.5 each representing a discount of 7.4% to the closing share price of the Company as quoted on the Stock Exchange on that date.
- (f) Pursuant to a special resolution passed on 20th September, 2000, the authorised share capital of the Company was increased from HK\$300,000,000 to HK\$400,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.1 each in the Company. These shares rank pari passu in all respects with the existing shares in issue.

23. WARRANTS

Pursuant to the placing and underwriting agreement entered on 28th May, 1999 between the Company and a placing agent in relation to the private placing of 346,000,000 warrants ("2000 Warrants"), each warrant entitles the holder thereof to subscribe up to HK\$93,420,000 in aggregate in cash for shares of HK\$0.1 each in the share capital of the Company at an initial subscription price of HK\$0.27 per share during the period from 28th June, 1999 to 27th June, 2000, both days inclusive. The placing of 2000 Warrants was completed on 23rd June, 1999.

23. WARRANTS (Continued)

On 21st February, 2000, the Company entered a placing and underwriting agreement with a placing agent in relation to the private placing of another 130,000,000 warrants ("2001 Warrants") conferring rights to subscribe up to HK\$305,500,000 in aggregate in cash for shares of HK\$0.1 each in the share capital of the Company at an initial subscription price of HK\$2.35 per share during the period from 20th March, 2000 to 19th March, 2001, both days inclusive. The placing of 2001 Warrants was completed on 16th March, 2000.

On 31st March, 2000, the Company had outstanding 2000 Warrants and 2001 Warrants conferring rights to subscribe up to HK\$38,134,800 and HK\$305,500,000 respectively, in cash for shares of HK\$0.10 each in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as of 31st March, 2000, result in the issue of 271,240,000 additional shares of HK\$0.10 each in the Company.

The 2000 Warrants and 2001 Warrants lapsed on 27th June, 2000 and 19th March, 2001 respectively. During the year, registered holders of 141,240,000 units of 2000 Warrants exercised their rights to subscribe for 141,240,000 shares in the Company at HK\$0.27 per share.

24. SHARE OPTION SCHEME

Pursuant to the Share Option Scheme of the Company adopted on 15th June, 1993, the board of directors of the Company may grant options to any directors or employees of the Group to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Details of the movements in the number of share options granted under the Share Option Scheme during the year are as follows:

Exercise period	Exercise price per share HK\$	At 1st April, 2000	Number of share option		At 31st March, 2001
			Lapsed during the year	Exercised during the year	
27th August, 1999 to 26th August, 2000	0.264	46,000,000	—	(29,000,000)	17,000,000
3rd March, 2000 to 2nd March, 2001	1.680	50,000,000	(1,600,000)	—	48,400,000
		96,000,000	(1,600,000)	(29,000,000)	65,400,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

25. RESERVES

	Share premium HK\$'000	Contribution surplus HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP						
At 1st April, 1999	16,271	171,671	—	446	(247,855)	(59,467)
Net proceeds from issue of shares	485,643	—	—	—	—	485,643
Net proceeds from issue of warrants	—	—	45,512	—	—	45,512
Goodwill arising on acquisition of subsidiaries	—	—	—	—	(102,800)	(102,800)
Goodwill released on disposal of subsidiaries	—	—	—	—	15,205	15,205
Goodwill released on deemed disposal of associates	—	—	—	—	2,390	2,390
Transfer from other reserve to share premium due to exercise of warrants	13,796	—	(13,796)	—	—	—
Profit for the year	—	—	—	—	5,198	5,198
At 31st March, 2000	515,710	171,671	31,716	446	(327,862)	391,681
Net proceeds from issue of shares	28,634	—	—	—	—	28,634
Goodwill arising on acquisition of subsidiaries	—	—	—	—	(50,110)	(50,110)
Goodwill arising on acquisition of associates	—	—	—	—	(2,286)	(2,286)
Goodwill released on disposal of subsidiaries	—	—	—	—	15,768	15,768
Transfer from other reserve to share premium due to exercise of warrants	9,516	—	(9,516)	—	—	—
Transfer from other reserve to deficit due to expiration of warrants	—	—	(22,200)	—	22,200	—
Loss for the year	—	—	—	—	(59,495)	(59,495)
At 31st March, 2001	553,860	171,671	—	446	(401,785)	324,192
THE COMPANY						
At 1st April, 1999	16,271	262,143	—	446	(297,896)	(19,036)
Net proceeds from issue of shares	485,643	—	—	—	—	485,643
Net proceeds from issue of warrants	—	—	45,512	—	—	45,512
Transfer from other reserve to share premium due to exercise of warrants	13,796	—	(13,796)	—	—	—
Profit for the year	—	—	—	—	737	737
At 31st March, 2000	515,710	262,143	31,716	446	(297,159)	512,856
Net proceeds from issue of shares	28,634	—	—	—	—	28,634
Transfer from other reserve to share premium due to exercise of warrants	9,516	—	(9,516)	—	—	—
Transfer from other reserve to deficit due to expiration of warrants	—	—	(22,200)	—	22,200	—
Loss for the year	—	—	—	—	(161,303)	(161,303)
At 31st March, 2001	553,860	262,143	—	446	(436,262)	380,187

25. RESERVES (Continued)

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

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

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

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

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

26. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Balance brought forward	—	1,268
Credit for the year (Note 9)	—	(1,268)
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Balance carried forward	—	—
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

26. DEFERRED TAXATION (Continued)

At the balance sheet date, the major components of the unprovided deferred tax liabilities (assets) are as follows:

	THE GROUP	
	Unprovided	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	8	(554)
Taxation losses	(42,159)	(30,783)
	(42,151)	(31,337)

The net unprovided deferred tax asset has not been recognised in the financial statements as it is uncertain that the net deferred tax asset will be realised in the foreseeable future.

The components of the deferred tax credit (charge), provided or unprovided, for the year are as follows:

	Provided		Unprovided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Difference between tax allowances and depreciation	—	1,268	(562)	(1,076)
Taxation losses	—	—	11,376	(4,777)
	—	1,268	10,814	(5,853)

The Company did not have any significant provided or unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

27. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(59,605)	2,951
Depreciation	9,200	13,153
Interest expenses	316	3,644
Interest income	(14,459)	(1,848)
Loss on disposal of property, plant and equipment	614	3,148
Impairment loss recognised on property, plant and equipment	—	4,059
Share of results of associates	2,463	1,246
Gain on deemed disposal of associates	—	(1,284)
Gain on disposal of subsidiaries	(1,425)	(62,199)
Provision for other debtors and deposits	11,367	—
Unrealised loss on other investments	22,302	—
(Increase) decrease in inventories	(677)	3,507
Decrease in trade debtors	5,062	32,168
Increase in other debtors, deposits and prepayments	(29,335)	(69,305)
Decrease in trade creditors	(6,335)	(18,737)
Decrease in other creditors and accrued charges	22,307	2,443
Decrease in bills payable	—	(710)
Decrease in borrowings from a subsidiary of a former shareholder	(4,991)	(3,947)
Increase in amounts due from related companies	(1,660)	—
Increase in amounts due to related companies	2,634	—
Net cash outflow from operating activities	(42,222)	(91,711)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

28. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	516	15,457
Other investments	3,104	—
Inventories	647	694
Trade debtors	6,738	4,046
Other debtors, deposits and prepayments	15,591	10,726
Bank balances and cash	3,817	5,230
Bank overdrafts	(275)	(5,195)
Trade creditors	—	(12,027)
Other creditors and accrued charges	(31,457)	(9,596)
Minority interests	—	(153)
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Net (liabilities) assets disposed of	(1,319)	9,182
Goodwill	15,768	15,205
Gain on disposal of subsidiaries	1,425	62,199
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Consideration	15,874	86,586
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Satisfied by:		
Cash	15,874	77,753
Investment in securities	—	8,833
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	15,874	86,586
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28. DISPOSAL OF SUBSIDIARIES (Continued)

Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration received	15,874	77,753
Bank balances and cash disposed of	(3,817)	(5,230)
Bank overdrafts	275	5,195
	12,332	77,718

The subsidiaries disposed of during the year did not contribute significantly to the cashflows of the Group.

The subsidiaries disposed of during the year ended 31st March, 2000 contributed approximately HK\$11,968,000 to the Group's net operating cash inflows.

The subsidiaries disposed of during the year contributed approximately HK\$42,243,000 (2000: HK\$54,519,000) to the Group's turnover and had contributed an operating profit of approximately HK\$448,000 (2000: loss of HK\$17,366,000) to the Group's operating result.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

29. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED:		
Property, plant and equipment	—	2,387
Inventories	—	677
Trade debtors	—	19,888
Other debtors, deposits and prepayments	119	2,792
Bank balances and cash	—	5,342
Bank overdrafts	—	(139)
Trade creditors	—	(22,918)
Other creditors and accrued charges	(189)	(7,784)
Tax payable	—	(74)
Minority interests	—	(1,414)
	(70)	(1,243)
Goodwill	50,110	102,918
Consideration	50,040	101,675
Satisfied by:		
Cash	26,040	18,940
Deposit paid for acquisition of a subsidiary	24,000	—
Issue of shares	—	82,735
	50,040	101,675

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

29. ACQUISITION OF SUBSIDIARIES (Continued)

Analysis of net cash outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	(26,040)	(18,940)
Bank balances and cash acquired	—	5,342
Bank overdrafts	—	(139)
	(26,040)	(13,737)

The subsidiaries acquired during the year did not contribute significantly to the turnover, operating results and cashflows of the Group.

The subsidiaries acquired for the year ended 31st March, 2000 contributed approximately HK\$36,055,000 to the Group's turnover and incurred an operating loss of approximately HK\$1,871,000 during that year and they did not contribute significantly to the cashflows of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Trust receipt loans not repayable within three months from date of advance HK\$'000	Bank loans HK\$'000	Obligations held under finance leases HK\$'000
Balance at 1st April, 1999	159,787	3,647	26,680	7,584
Net proceeds received from issue of shares	513,384	—	—	—
Net proceeds received from issue of warrants	45,512	—	—	—
Repayment of bank loans	—	(3,647)	(26,680)	—
Repayment of obligations under finance leases	—	—	—	(7,584)
Acquisition of subsidiaries	82,735	—	—	—
Balance at 1st April, 2000	801,418	—	—	—
Net proceeds received from issue of shares	45,658	—	—	—
Balance at 31st March, 2001	847,076	—	—	—

31. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Bank balances and cash	186,005	443,179
Bank overdrafts	—	(1,135)
	186,005	442,044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

32. RELATED PARTY TRANSACTIONS

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

	Sales of		Rental income		Management fee		Amounts due from		Amounts due to	
	air ticketing and		received from		received from		related companies		related companies	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	16,261	—	446	—	—	—	72,075	884	—	—
Subsidiary of a shareholder	—	—	1,037	1,121	810	2,756	1,660	—	2,634	—
Investee company	—	—	—	—	500	—	—	—	—	—

Pursuant to an agreement dated 15th October, 2000, the Group disposed of its entire interest in Asiaworld Cyberlink Limited (formerly known as Supreme Success Company Limited), Oscar Group Services Limited and Power Vision Development Limited to an associate for a consideration of HK\$16,000,000.

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

33. OPERATING LEASE COMMITMENTS

At 31st March, 2001, the Group had the following commitments payable within the next year under non-cancellable operating leases in respect of rented premises:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	—	522
More than one year, but not exceeding five years	—	2,685
	—	3,207

The Company did not have any operating lease commitments at 31st March, 2001 and 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

CULTURECOM HOLDINGS LIMITED 2000-2001

34. CONTINGENT LIABILITIES

The Group has issued guarantees of approximately HK\$10,000,000 (2000: HK\$10,000,000) to a banker to secure general banking facilities granted to third parties. At 31st March, 2001 and 2000, the facilities have not been utilised by the third parties.

At 31st March, 2001, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 in relation to guarantee given to the plaintiff. Based on the advise of its legal adviser, the director are of the view that the Company has solid grounds to defence and will not be liable for the claims. Accordingly, no provisions for this amount has been provided in the financial statements.

At 31st March, 2000, the Company has issued guarantees of approximately HK\$114,650,000 to bankers to secure general banking facilities granted to certain subsidiaries. None of the facilities was utilised by the subsidiaries.

35. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure in respect of the acquisition of a subsidiary:		
Contracted but not provided for	6,542	—
Authorised but not contracted for	—	26,000
	<hr/>	<hr/>
Capital expenditure in respect of the acquisition of plant and equipment authorised but not contracted for	225	—
	<hr/>	<hr/>

The Company did not have any significant capital commitments at 31st March, 2001 and 2000.

36. SIGNIFICANT POST BALANCE SHEET EVENTS

- (a) On 10th April, 2001, the Company entered a placing and underwriting agreement with a placing agent in relation to the private placing of 300,000,000 warrants (“2002 Warrants”) conferring rights to subscribe up to HK\$81,000,000 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\$0.27 per share during the period from 10th May, 2001 to 9th May, 2002, both days inclusive. The placing of 2002 Warrants was completed on 8th May, 2001.
- (b) On 27th April, 2001, The People’s Education Press (人民教育出版社) (“Party A”) and the Company entered into a letter of intent to form a Sino-Foreign Joint Venture Company (the “JV Company”) in the PRC. The registered capital of the JV Company is Rmb10,000,000. Party A and the Company would own 49% and 51%, respectively, of the registered capital of the JV Company.
- (c) On 18th May, 2001, Q9 Technology Holdings Limited (“Q9 Technology”), an associate of Culture.com Technology (BVI) Limited, successfully listed on the Growth Enterprise Market of the Stock Exchange by placing 250,000,000 shares (“Placing Shares”) of HK\$0.01 each at an issue price of HK\$0.45 per share. The Placing Shares were oversubscribed and had been allocated in full. Upon completion of the subject placing, the Group indirectly owns approximately 24% interests in Q9 Technology.

37. RETIREMENT BENEFIT SCHEME

The Group operates a defined contribution retirement benefits scheme for all qualified employees. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees.

The retirement benefits scheme contributions represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31st March, 2000, forfeited contributions, which arose upon employees leaving the retirement benefits scheme amounting to approximately HK\$711,000 and which are available to reduce the contributions payable in the future years. No such forfeited contributions at 31st March, 2001.

In December 2000, the Group had joined the Mandatory Provident Fund Scheme (“MPF Scheme”) under the rules and regulations of the Mandatory Provident Fund Authority.