

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

CULTURECOM HOLDINGS LIMITED

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of revised and new Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants.

Other than as disclosed below, the adoption of these revised and new SSAPs has not resulted in any changes to the Group’s accounting policies that have affected the amounts reported for the current or prior periods. In addition, these revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

Goodwill and impairment of assets

In the current year, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill previously eliminated against reserves. However, impairment loss in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries or associates and the date of adoption of SSAP 30 has been recognised retrospectively. Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised over its estimated useful life less impairment losses identified, if any. Negative goodwill arising on acquisitions on or after 1st April, 2001 is presented as a deduction from assets and will be released to income statement based on an analysis of the circumstances from which the balance resulted.

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2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

Goodwill and impairment of assets (Continued)

The financial effect of the adoption of these new and revised SSAPs is summarised below:

	THE GROUP		
	Goodwill	Deficit	Total
	reserve	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000
Balance at 1st April, 2000			
As originally stated	—	327,862	327,862
Reclassify to goodwill reserve	85,734	(85,734)	—
Retrospective recognition of impairment loss recognised in respect of goodwill arising on acquisition of an associate	(2,823)	2,823	—
As restated	82,911	244,951	327,862

The effect of this change in accounting policies on the results for the current and prior periods is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Amortisation of goodwill	278	—
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries	8,000	50,110
Impairment loss recognised in respect of goodwill arising on acquisition of associates	—	2,286
	8,278	52,396

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3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

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 or associate at the date of acquisition.

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

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

On disposal of a subsidiary or an associate, 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

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

Revenue recognition

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

Service income is recognised when services are provided.

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 terms 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.

Property, plant and equipment

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

Depreciation is provided to write off the cost of 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%

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

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

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

Investments in securities

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

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

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

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

Research and development costs

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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 are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

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.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable to the Group's Mandatory Provident Fund Scheme.

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4. TURNOVER

	2002 HK\$'000	2001 HK\$'000
Continuing operations:		
Revenue from publishing and related business	57,445	44,422
Sales of goods		
— Chinese application software	6,703	—
— Others	190	6,284
	<hr/>	<hr/>
	64,338	50,706
Discontinued operations (Note 8)		
Sales of air ticketing and hotel reservation services	—	37,919
	<hr/>	<hr/>
	64,338	88,625

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

In prior years, the Group was also involved in the provision of air ticketing and hotel reservation services. That operation was discontinued from October 2000 (see note 8).

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

Income statement for the year ended 31st March, 2002

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	57,635	6,703	—	64,338
Segment results	1,245	(116,628)	(59,729)	(175,112)
Unallocated corporate expenses				(17,936)
Loss from operations				(193,048)
Share of results of associates	—	(6,271)	—	(6,271)
Gain on deemed disposal of associates				1,682
Finance costs				(3)
Loss before taxation				(197,640)
Taxation credit				189
Net loss before minority interests				(197,451)

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet at 31st March, 2002

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	30,769	142,749	133,313	306,831
Interests in associates	—	16,316	70,729	87,045
Unallocated corporate assets	—	—	—	82,438
Consolidated total assets	30,769	159,065	204,042	476,314
LIABILITIES				
Segment liabilities	13,812	5,609	784	20,205
Unallocated corporate liabilities	—	—	—	4,151
Consolidated total liabilities	13,812	5,609	784	24,356

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information for the year ended 31st March, 2002

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	259	6,467	—	1,443	8,169
Additions of development costs	—	68,567	—	—	68,567
Amortisation of development costs	—	26,525	—	—	26,525
Depreciation of property, plant and equipment	927	3,270	31	6,184	10,412
Amortisation of goodwill	—	278	—	—	278
Impairment loss recognised in respect of goodwill	—	—	8,000	—	8,000
Allowances for other debtors and deposits	2,507	35,133	4,670	—	42,310

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Income statement for the year ended 31st March, 2001

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Air ticketing and hotel reservation services HK\$'000 (discontinued)	Consolidated HK\$'000
Turnover	50,706	—	—	37,919	88,625
Segment results	3,849	(75,404)	(11,905)	493	(82,967)
Unallocated corporate expenses					(25,394)
Loss from operations					(108,361)
Share of results of associates	—	(2,463)	—	—	(2,463)
Finance costs					(316)
Impairment loss recognised in respect of goodwill arising on acquisition of associates	—	—	(2,286)	—	(2,286)
Gain on disposal of subsidiaries					986
Gain on disposal of discontinued operations					439
Loss before taxation					(112,001)
Taxation credit					110
Net loss for the year					(111,891)

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet at 31st March, 2001

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Air ticketing and hotel reservation services HK\$'000 (discontinued)	Consolidated HK\$'000
ASSETS					
Segment assets	42,413	153,142	278,157	—	473,712
Interests in associates	1,207	4,500	66,368	—	72,075
Unallocated corporate assets	—	—	—	—	72,900
Consolidated total assets	43,620	157,642	344,525	—	618,687
LIABILITIES					
Segment liabilities	12,920	6,625	1,052	—	20,597
Unallocated corporate liabilities	—	—	—	—	2,882
Consolidated total liabilities	12,920	6,625	1,052	—	23,479

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information for the year ended 31st March, 2001

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Air ticketing and hotel reservation services HK\$'000 (discontinued)	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	3,386	10,188	225	69	2,842	16,710
Additions of development costs	—	12,569	—	—	—	12,569
Depreciation of property, plant and equipment	1,241	855	97	160	6,847	9,200
Impairment loss recognised	—	—	52,396	—	—	52,396
Allowance for other debtors and deposits	—	11,367	—	—	—	11,367

Geographical segments

The Group's operations are located in Hong Kong and other regions in the People's Republic of China (the "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	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	63,643	88,625	(170,677)	(58,251)
The PRC	695	—	(14,093)	—
	64,338	88,625	(184,770)	(58,251)

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

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 intangible assets	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	454,342	618,687	60,521	29,279
The PRC	21,972	—	16,215	—
	476,314	618,687	76,736	29,279

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6. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 9)	4,533	5,400
Retirement benefits scheme contributions, net of forfeited contributions of approximately Nil (2001: HK\$113,000)	150	173
Redundancy payments	39	685
Other staff costs	48,622	33,294
	53,344	39,552
Less: Amount capitalised in the development costs	7,842	5,752
	45,502	33,800
Auditors' remuneration	1,168	1,157
Depreciation and amortisation of property, plant and equipment	10,412	9,200
(Gain) loss on disposal of property, plant and equipment	(31)	614
Operating lease rentals in respect of rented premises	317	2,749
Management fee received from related companies	—	(1,310)
Net property rental income under operating leases, net of direct outgoings of HK\$125,000 (2001: HK\$149,000)	(1,809)	(3,381)
Bank interest income	(3,274)	(14,459)
Dividend income	(692)	—
Forfeited retirement benefits scheme contributions received	(13,211)	—

7. FINANCE COSTS

The amount represents interest on bank borrowings wholly repayable within five years.

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8. DISCONTINUED OPERATIONS

During the year ended 31st March, 2001, the Group disposed of its wholly-owned subsidiaries, Asiaworld Cyberlink Limited, Oscar Group Services Limited and Power Vision Development Limited, all of which were 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.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Directors' remuneration:		
Fees:		
Executive directors	360	450
Independent non-executive directors	120	120
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	480	570
Other emoluments:		
Executive directors:		
Salaries and other benefits	3,873	4,710
Independent non-executive directors:		
Salaries and other benefits	120	120
Contributions to retirement benefits schemes	60	—
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	4,053	4,830
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	4,533	5,400

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil–HK\$1,000,000	5	2
HK\$1,000,001–HK\$1,500,000	3	5
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	8	7

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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2001: four) were directors of the Company whose emoluments are included in the disclosure in note 9(a) above. The emoluments of the remaining two (2001: one) individuals within the band of HK\$1,000,001 to HK\$1,500,000 (2001: HK\$1,500,001 to HK\$2,000,000) were as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	2,760	1,560
Contributions to retirement benefits schemes	24	—
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	2,784	1,560

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10. TAXATION CREDIT

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.

Details of the unprovided deferred taxation are set out in note 25.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK\$195,563,000 (2001: HK\$111,891,000) and the weighted average number of 2,722,171,860 (2001: 2,676,088,809) ordinary shares in issue during the year.

The computation of diluted loss per share for the years ended 31st March, 2002 and 2001 does not assume the exercise of the Company's outstanding share options and warrants since their exercise would reduce net loss per share.

The adjustment to comparative basic and diluted loss per share, arising from the change in accounting policies shown in note 2 above, is as follows:

	HK cents
Reconciliation of 2001 loss per share:	
Reported loss per share before adjustments	2.22
Adjustments arising from the adoption of new SSAPs	1.96
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Restated loss per share	4.18
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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, 2001	128,400	29,974	15,258	50,703	14,058	238,393
Additions	—	2,045	171	5,953	—	8,169
Disposals	—	(260)	—	(864)	—	(1,124)
Transfer to development costs (note 14)	—	—	—	—	(14,058)	(14,058)
At 31st March, 2002	128,400	31,759	15,429	55,792	—	231,380
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st April, 2001	74,908	17,470	11,567	31,193	—	135,138
Provided for the year	2,254	3,549	252	4,357	—	10,412
Eliminated on disposals	—	(95)	—	(347)	—	(442)
At 31st March, 2002	77,162	20,924	11,819	35,203	—	145,108
NET BOOK VALUES						
At 31st March, 2002	51,238	10,835	3,610	20,589	—	86,272
At 31st March, 2001	53,492	12,504	3,691	19,510	14,058	103,255

The leasehold land and buildings of the Group at 31st March, 2002 are situated in Hong Kong and held under medium-term leases.

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13. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition during the year and at 31st March, 2002	11,333
AMORTISATION AND ACCUMULATED IMPAIRMENT LOSS	
Charged for the year	278
Impairment loss recognised	8,000
At 31st March, 2002	8,278
CARRYING AMOUNT	
At 31st March, 2002	3,055

The amortisation period adopted for goodwill is 12 years.

In response to the rapid change of the information technology business environment, the Group assessed the recoverable amounts of its subsidiaries on the basis of value in use. An impairment loss of approximately HK\$8,000,000 was recognised in full in respect of the subsidiary engaged in that business.

14. DEVELOPMENT COSTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
COST		
At 1st April	25,275	12,706
Additions	68,567	12,569
Transfer from property, plant and equipment (note 12)	14,058	—
At 31st March	107,900	25,275
AMORTISATION		
Charged for the year and at 31st March	26,525	—
NET BOOK VALUE	81,375	25,275

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

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15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	374,246	374,246
Amounts due from subsidiaries	753,297	728,955
	1,127,543	1,103,201
Less: Impairment loss recognised	(695,904)	(455,904)
	431,639	647,297

Due to continuous losses incurred by the Group's certain subsidiaries. The directors assessed the recoverable amount of these subsidiaries on the basis of value in use. Total impairment loss of approximately HK\$240,000,000 was recognised in respect of the full investment costs of these subsidiaries for the year.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts are not repayable within twelve months from the balance sheet date and are therefore shown as non-current.

Particulars of the Company's principal subsidiaries as at 31st March, 2002 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Group	Principal activities
			%	
Chinese 2000 Technology Limited	Hong Kong	HK\$2	100	Development of the Chinese language computer operating system
Citicomics Limited	Hong Kong	HK\$2	100	Publishing
Culturecom Centre Limited	Hong Kong	HK\$2	100	Property holding
Culturecom e-publication Limited	Hong Kong	HK\$2	100	Development of electronic publication
Culturecom Enterprises Limited	Hong Kong	HK\$2	100	Management services

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15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Group	Principal activities
			%	
Culturecom Holdings (BVI) Limited	British Virgin Islands	US\$2	100	Investment holding
Culturecom Limited	Hong Kong	HK\$1,000	100	Investment holding and publishing
Culturecom Investments Limited	Hong Kong	HK\$2	100	Investment holding and securities trading
Culturecom Retail Limited	Hong Kong	HK\$2	100	Comics retailing
Culture.com Technology (BVI) Limited	British Virgin Islands	US\$1	100	Investment holding
Culture.com Technology Limited	Hong Kong	HK\$2	100	Development of Chinese language computer processor
CultureKid i-shop (HK) Limited	Hong Kong	HK\$2	100	Retailing and development of computer application software
Growlong Company Limited	Hong Kong	HK\$10,000	100	Licensing
Culturecom Online Limited	Hong Kong	HK\$2	100	Electronic publication
文傳漫畫設計（深圳）有限公司	PRC	HK\$1,000,000	100	Comics design and production
SNIIC Technology Limited	Hong Kong	HK\$50,000	100	Development of "Secure Numerical Internetwork Information Centre"
Winway H.K. Investments Limited	Hong Kong	HK\$2	100	Investment holding and securities trading

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15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Group %	Principal activities
Beijing Redflag Chinese 2000 Software Technology Co. Ltd.	PRC	RMB10,000,000	65	Development of the Chinese language computer operating system
北京中文贰仟科技有限公司	PRC	RMB3,000,000	100	Development of the Chinese language computer operating system

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 principal subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affect 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.

16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	15,442	—	—	—
Loans to associates	71,603	72,075	3,970	3,970
	87,045	72,075	3,970	3,970
Market value of listed shares	43,500	—	—	—

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16. INTERESTS IN ASSOCIATES (Continued)

The loans are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the loans are not repayable 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, 2002 are as follows:

Name	Place of incorporation	Proportion of nominal value of issued share capital/registered capital held by the Group	Principal activities
		%	
GlobalRes Group Limited	British Virgin Islands	30	Investment holding and its subsidiaries are engaged in the provision of computer and telecommunications services to travel agents
Q9 Technology Holdings Limited	Cayman Islands	24	Development, packing and retailing of the Chinese language encryption software
DNA Incorporated	Cayman Islands	34	Research and development of novel vaccines for veterinary infections diseases

The above table lists the associates of the Group which, in the opinion of the directors, principally affect 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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17. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities:						
Hong Kong	—	—	20,183	26,781	20,183	26,781
Overseas	—	—	706	1,467	706	1,467
	—	—	20,889	28,248	20,889	28,248
Unlisted securities:						
Equity securities	3,385	37,280	4,000	—	7,385	37,280
Debt securities	—	—	16,036	—	16,036	—
	3,385	37,280	20,036	—	23,421	37,280
	3,385	37,280	40,925	28,248	44,310	65,528
Market value of listed securities						
	—	—	20,889	28,248	20,889	28,248
Carrying amount analysed for reporting purpose as:						
Current	—	—	40,925	28,248	40,925	28,248
Non-current	3,385	37,280	—	—	3,385	37,280
	3,385	37,280	40,925	28,248	44,310	65,528

Included in investment securities is an investment in a company engaged in the manufacturing and trading of healthcare products. In response to the rapid change of the environment, the Group assessed the recoverable amount of this investment. An impairment loss of approximately HK\$36,029,000 was recognised in full in respect of this investment.

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For the year ended 31st March, 2002

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18. INVENTORIES

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

19. 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	
	2002	2001
	HK\$'000	HK\$'000
0-60 days	9,578	4,953
61-90 days	1,768	1,982
Over 90 days	4,153	2,429
	<hr/>	<hr/>
	15,499	9,364

20. TRADE CREDITORS

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
0-60 days	6,075	3,603
61-90 days	390	628
Over 90 days	962	2,907
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	7,427	7,138

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For the year ended 31st March, 2002

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21. SHARE CAPITAL

	Number of shares		Share capital	
	2002	2001	2002	2001
	'000	'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1st April	4,000,000	3,000,000	400,000	300,000
Increase during the year	—	1,000,000	—	100,000
<hr/>				
At 31st March	4,000,000	4,000,000	400,000	400,000
<hr/>				
Issued and fully paid:				
At 1st April	2,710,160	2,539,920	271,016	253,992
Exercise of share options	5,000	29,000	500	2,900
Exercise of warrants	72,400	141,240	7,240	14,124
<hr/>				
At 31st March	2,787,560	2,710,160	278,756	271,016

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\$0.10 each in the Company. These shares ranked pari passu in all respects with the existing shares in issue.

22. WARRANTS

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 the 2002 Warrants was completed on 8th May, 2001.

During the year, registered holders of 72,400,000 units of the 2002 Warrants exercised their rights to subscribe for 72,400,000 shares in the Company at HK\$0.27 per share. At 31st March, 2002, the Company had outstanding 227,600,000 units of the 2002 Warrants to be exercised at any time on or before 9th May, 2002. Exercise in full of these warrants would result in the issue of 227,600,000 additional ordinary shares of HK\$0.10 each.

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23. SHARE OPTIONS

At 31st March, 2002, the following share options to subscribe for ordinary shares were outstanding under the Company's share option scheme:

Date of share options granted	Exercise price per share	Exercise period	Number of share option			
			At 1st April, 2001	Exercised	Lapsed	
	HK\$					
		27th August, 1999–				
27th August, 1999	0.264	26th August, 2009	17,000,000	(5,000,000)	—	12,000,000
		3rd March, 2000–				
3rd March, 2000	1.68	2nd March, 2010	48,400,000	—	(9,800,000)	38,600,000
			65,400,000	(5,000,000)	(9,800,000)	50,600,000

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24. RESERVES

	Share premium HK\$'000	Contribution surplus HK\$'000	Goodwill reserve HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 2000								
— as originally stated	515,710	171,671	—	31,716	446	—	(327,862)	391,681
— reclassify to goodwill reserve (note 2)	—	—	(85,734)	—	—	—	85,734	—
— prior year adjustment (note 2)	—	—	2,823	—	—	—	(2,823)	—
— as restated	515,710	171,671	(82,911)	31,716	446	—	(244,951)	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 an associate	—	—	(2,286)	—	—	—	—	(2,286)
Goodwill released on disposal of subsidiaries	—	—	15,768	—	—	—	—	15,768
Impairment loss recognised on goodwill arising on acquisition of subsidiaries and associates	—	—	52,396	—	—	—	—	52,396
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	—
Net loss for the year	—	—	—	—	—	—	(111,891)	(111,891)
At 1st April, 2001, as restated	553,860	171,671	(67,143)	—	446	—	(334,642)	324,192
Net proceeds from issue of shares	12,992	—	—	—	—	—	—	12,992
Net proceeds from issue of warrants, net of issue expenses	—	—	—	24,763	—	—	—	24,763
Transfer from other reserve to share premium due to exercise of warrants	5,976	—	—	(5,976)	—	—	—	—
Exchange loss on translation of overseas subsidiaries	—	—	—	—	—	(325)	—	(325)
Goodwill released on deemed disposal of associates	—	—	4,195	—	—	—	—	4,195
Share of net proceeds from issue of warrants by an associate	—	—	—	1,500	—	—	—	1,500
Net loss for the year	—	—	—	—	—	—	(195,563)	(195,563)
At 31st March, 2002	572,828	171,671	(62,948)	20,287	446	(325)	(530,205)	171,754

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24. RESERVES (Continued)

The deficit of the Group include accumulated losses of HK\$10,828,000 (2001: HK\$4,557,000) attributable to associates of the Group.

	Share premium	Contribution surplus	Other reserve	Capital redemption reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY						
At 1st April, 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	—
Net loss for the year	—	—	—	—	(161,303)	(161,303)
At 31st March, 2001	553,860	262,143	—	446	(436,262)	380,187
Net proceeds from issue of shares	12,992	—	—	—	—	12,992
Net proceeds from issue of warrants, net of issue expenses	—	—	24,763	—	—	24,763
Transfer from other reserve to share premium due to exercise of warrants	5,976	—	(5,976)	—	—	—
Net loss for the year	—	—	—	—	(240,277)	(240,277)
At 31st March, 2002	572,828	262,143	18,787	446	(676,539)	177,665

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.

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24. RESERVES (Continued)

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.

25. UNPROVIDED DEFERRED TAXATION

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	1,825	8
Taxation losses	(57,031)	(42,159)
	(55,206)	(42,151)

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.

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25. UNPROVIDED DEFERRED TAXATION (Continued)

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	(1,817)	(562)
Taxation losses	14,872	11,376
	<hr/>	<hr/>
	13,055	10,814

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

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26. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
	HK\$'000	HK\$'000
Loss before taxation	(197,640)	(112,001)
Amortisation of goodwill	278	—
Amortisation of development costs	26,525	—
Depreciation and amortisation of property, plant and equipment	10,412	9,200
Dividend income	(692)	—
Interest expenses	3	316
Interest income	(3,274)	(14,459)
(Gain) loss on disposal of property, plant and equipment	(31)	614
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries	8,000	50,110
Impairment loss recognised in respect of goodwill arising on acquisition of associates	—	2,286
Impairment loss recognised in respect of investment securities	36,029	—
Share of results of associates	6,271	2,463
Gain on deemed disposal of associates	(1,682)	—
Gain on disposal of subsidiaries	—	(1,425)
Allowances for other debtors and deposits	42,310	11,367
Unrealised loss on other investments	14,681	22,302
Decrease (increase) in inventories	552	(677)
(Increase) decrease in trade debtors	(6,135)	5,062
Increase in other debtors, deposits and prepayments	(21,625)	(29,335)
Increase (decrease) in trade creditors	289	(6,335)
Increase in other creditors and accrued charges	484	22,307
Decrease in borrowings from a subsidiary of a former shareholder	—	(4,991)
Increase in amounts due from related companies	(2,446)	(1,660)
Increase in amounts due to related companies	104	2,634
Net cash outflow from operating activities	(87,587)	(42,222)

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27. DISPOSAL OF SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
NET LIABILITIES DISPOSED OF:		
Property, plant and equipment	—	516
Other investments	—	3,104
Inventories	—	647
Trade debtors	—	6,738
Other debtors, deposits and prepayments	—	15,591
Bank balances and cash	—	3,817
Bank overdrafts	—	(275)
Other creditors and accrued charges	—	(31,457)
<hr/>		
Net liabilities disposed of	—	(1,319)
Goodwill	—	15,768
Gain on disposal of subsidiaries	—	1,425
<hr/>		
Consideration, satisfied by cash	—	15,874

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

	2002	2001
	HK\$'000	HK\$'000
Cash consideration received	—	15,874
Bank balances and cash disposed of	—	(3,817)
Bank overdrafts	—	275
<hr/>		
	—	12,332

The subsidiaries disposed of during the year ended 31st March, 2001 did not contribute significantly to the cashflows of the Group.

The subsidiaries disposed of during the year ended 31st March, 2001 contributed approximately HK\$42,243,000 to the Group's turnover and had contributed an operating profit of approximately HK\$448,000 to the Group's operating results.

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28. ACQUISITION OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
NET ASSETS (LIABILITIES) ACQUIRED:		
Bank and cash balances	9,523	—
Other debtors, deposits and prepayments	—	119
Other creditors and accrued charges	—	(189)
Minority interests	(3,333)	—
	6,190	(70)
Goodwill	11,333	50,110
	17,523	50,040
Satisfied by:		
Cash	8,360	26,040
Deposit paid for acquisition of subsidiaries	9,163	24,000
	17,523	50,040

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(8,360)	(26,040)
Bank balances and cash acquired	9,523	—
	1,163	(26,040)

The subsidiaries acquired on both years did not contribute significantly to the turnover, operating results and cashflows of the Group.

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29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Other reserve HK\$'000	Minority interest HK\$'000
Balance at 1st April, 2000	769,702	31,716	—
Net proceeds received from issue of shares	45,658	—	—
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)	—
Balance at 1st April, 2001	824,876	—	—
Net proceeds received from issue of shares	20,732	—	—
Net proceeds from issue of warrants, net of issue expenses	—	24,763	—
Transfer from other reserve to share premium due to exercise of warrants	5,976	(5,976)	—
Share of net proceeds from issue of warrants by an associate	—	1,500	—
Loss attributable to minority shareholders	—	—	(1,888)
Increase in minority interests upon acquisition of subsidiaries	—	—	3,333
Effect of foreign exchange rate change	—	—	3
Balance at 31st March, 2002	851,584	20,287	1,448

30. MAJOR NON-CASH TRANSACTIONS

- During the year, deposits for acquisition of investments of approximately HK\$14,336,000 is transferred to interests in associates.
- During the year, the Group acquired certain subsidiaries at a total consideration of approximately HK\$17,523,000. The consideration was satisfied by cash and deposit paid in last year of approximately HK\$8,360,000 and HK\$9,163,000 respectively.
- During the year, other debtors, deposits and prepayments of approximately HK\$42,097,000 is transferred to development costs.

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31. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to income statement represents contributions payable to the scheme by the Group at 5% of eligible employees' relevant aggregate income.

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	
	air ticketing and		received from		received from		related companies		to related	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	—	16,261	265	446	—	—	—	72,075	—	—
Subsidiaries of a shareholder	—	—	958	1,037	30	810	4,106	1,660	2,738	2,634
Investee company	—	—	—	—	—	500	—	—	—	—

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

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

The amounts due from (to) related companies are unsecured, non-interest bearing and have no fixed repayment terms.

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33. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31st March, 2002, the Group had commitments for future minimum lease payment under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	68	—

Operating lease payments represent rentals payable by the Group for its office premise. Lease is negotiated for one year and rentals is fixed for one year.

The Company did not have any operating lease commitments at 31st March, 2002 and 2001.

The Group as lessor

Property rental income earned during the year was HK\$1,934,000 (2001: HK\$3,530,000). The properties held for rental purposes have committed tenants for the next one year.

At 31st March, 2002, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	1,206	390
In the second to fifth year inclusive	177	163
	1,383	553

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34. CONTINGENT LIABILITIES

THE GROUP

At 31st March, 2002, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2001: 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 reasonable grounds to defend. Accordingly, no provision for this amount has been provided in the financial statements.

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

THE COMPANY

The Company did not have any significant contingent liabilities at 31st March, 2002 and 2001.

35. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for:		
Capital expenditure in respect of the acquisition of:		
— a jointly controlled entity	9,452	—
— a subsidiary	—	6,542
	<hr/>	<hr/>
	9,452	6,542
Capital expenditure in respect of the acquisition of property, plant and equipment	<hr/>	<hr/>
	—	225

The Company did not have any significant capital commitments at 31st March, 2002 and 2001.

36. SIGNIFICANT POST BALANCE SHEET EVENT

Subsequent to 31st March, 2002, registered warrant holders of 226,440,000 units of 2002 Warrants exercised their rights to subscribe for 226,440,000 shares in the Company at an initial subscription price of HK\$0.27 per share.