

## 1. GENERAL

The Company was 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. 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 new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

### Foreign Currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

### Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interests received, dividends received and interest paid, which were previously presented under a separate heading, are classified as operating, investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

### Employee Benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group only participates in defined contribution retirement benefits schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

### 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, an associate or a jointly controlled entity at the date of acquisition.

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

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

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

### 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.

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.

#### Jointly controlled entity

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

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

#### Property, plant and equipment

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment**

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

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

#### **Investments in securities**

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

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Finance lease**

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

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

#### **Inventories**

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

#### **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.

#### **Foreign currencies**

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

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

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

### Income statement for the year ended 31st March, 2003

	<b>Publishing</b>	<b>Chinese information infrastructure</b>	<b>Investment holding</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	55,539	3,599	–	59,138
Segment results	3,480	(41,761)	(34,684)	(72,965)
Unallocated corporate expenses				(34,539)
Loss from operations				(107,504)
Share of results of associates				(8,518)
Share of result of a jointly controlled entity				(2,607)
Allowance for loans to associates				(28,000)
Impairment loss recognised in respect of goodwill arising on acquisition of associates				(4,389)
Gain on expiry of warrants				97
Finance costs				(16)
Loss before taxation				(150,937)
Taxation credit				141
Loss before minority interests				(150,796)
Minority interests				1,434
Net loss for the year				(149,362)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

#### Balance sheet at 31st March, 2003

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

Other information for the year ended 31st March, 2003

	Publishing	Chinese information infrastructure	Investment holding	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment	168	5,938	–	718	6,824
Additions of development costs	–	14,920	–	–	14,920
Amortisation of development costs	–	18,431	–	–	18,431
Depreciation and amortisation of property, plant and equipment	645	3,869	20	6,423	10,957
Amortisation of goodwill	–	220	–	–	220
Impairment loss recognised in respect of goodwill arising on acquisition of associates	–	1,389	3,000	–	4,389
Allowances for other debtors and deposits	119	19,070	6,786	–	25,975



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

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## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

#### Income statement for the year ended 31st March, 2002

	<b>Publishing</b>	<b>Chinese information infrastructure</b>	<b>Investment holding</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>57,635</u>	<u>6,703</u>	<u>–</u>	<u>64,338</u>
Segment results	<u>1,245</u>	<u>(116,628)</u>	<u>(59,729)</u>	<u>(175,112)</u>
Unallocated corporate expenses				<u>(17,936)</u>
Loss from operations				(193,048)
Share of results of associates				(6,271)
Gain on deemed disposal of associates				1,682
Finance costs				<u>(3)</u>
Loss before taxation				(197,640)
Taxation credit				<u>189</u>
Loss before minority interests				(197,451)
Minority interests				<u>1,888</u>
Net loss for the year				<u>(195,563)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

Balance sheet at 31st March, 2002

	<b>Publishing</b>	<b>Chinese information infrastructure</b>	<b>Investment holding</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>				
Segment assets	<u>30,769</u>	<u>142,749</u>	<u>133,313</u>	306,831
Interests in associates				87,045
Unallocated corporate assets				<u>82,438</u>
Consolidated total assets				<u>476,314</u>
<b>LIABILITIES</b>				
Segment liabilities	<u>13,812</u>	<u>5,609</u>	<u>784</u>	20,205
Unallocated corporate liabilities				<u>4,151</u>
Consolidated total liabilities				<u>24,356</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

#### Other information for the year ended 31st March, 2002

	Publishing	Chinese information infrastructure	Investment holding	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 and amortisation of property, plant and equipment	927	3,270	31	6,184	10,412
Amortisation of goodwill	–	278	–	–	278
Impairment loss recognised in respect of investment securities	–	–	–	36,029	36,029
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries	–	–	8,000	–	8,000
Allowances for other debtors and deposits	2,507	35,133	4,670	–	42,310

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments

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

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

	Turnover		Loss from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	56,715	63,643	(85,300)	(178,955)
PRC	2,423	695	(22,204)	(14,093)
	<u>59,138</u>	<u>64,338</u>	<u>(107,504)</u>	<u>(193,048)</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and development costs	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	373,634	454,342	14,234	60,521
PRC	9,772	21,972	7,510	16,215
	<u>383,406</u>	<u>476,314</u>	<u>21,744</u>	<u>76,736</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 5. LOSS FROM OPERATIONS

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 7)	<b>4,618</b>	4,533
Other staff costs:		
– Retirement benefits scheme contributions	<b>1,682</b>	150
– Redundancy payments	–	39
– Salaries and other benefits	<b>38,363</b>	48,622
	<b>44,663</b>	53,344
Less: Amount capitalised in the development costs	<b>5,093</b>	7,842
	<b>39,570</b>	45,502
Auditors' remuneration	<b>950</b>	1,168
Write-down of inventories	<b>1,078</b>	–
Depreciation and amortisation		
– Owned assets	<b>10,942</b>	10,412
– Asset held under a finance lease	<b>15</b>	–
	<b>10,957</b>	10,412
Loss (gain) on disposal of property, plant and equipment	<b>99</b>	(31)
Net realised loss on investments in securities	<b>1,898</b>	–
Operating lease rentals in respect of rented premises	<b>1,216</b>	317
Net property rental income under operating leases, net of direct outgoings of HK\$142,000 (2002: HK\$125,000)	<b>(2,299)</b>	(1,809)
Interest income	<b>(754)</b>	(3,274)
Dividend income	<b>(375)</b>	(692)
Forfeited retirement benefits scheme contributions received	–	(13,211)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 6. FINANCE COSTS

	<i>2003</i> <i>HK\$'000</i>	2002 HK\$'000
Interest on:		
A finance lease	<b>16</b>	–
Bank borrowings wholly repayable within five years	–	3
	<u><b>16</b></u>	<u>3</u>

## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	<i>2003</i> <i>HK\$'000</i>	2002 HK\$'000
Directors' remuneration:		
Fees:		
Executive directors	<b>360</b>	360
Independent non-executive directors	<b>120</b>	120
	<u><b>480</b></u>	<u>480</u>
Other emoluments:		
Executive directors:		
Salaries and other benefits	<b>3,958</b>	3,873
Retirement benefits scheme contributions	<b>60</b>	60
Independent non-executive directors:		
Salaries and other benefits	<b>120</b>	120
	<u><b>4,138</b></u>	<u>4,053</u>
	<u><b>4,618</b></u>	<u>4,533</u>

Emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<i>2003</i>	2002
Nil – HK\$1,000,000	<b>5</b>	5
HK\$1,000,001 – HK\$1,500,000	<b>3</b>	3
	<u><b>8</b></u>	<u>8</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

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

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

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

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

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2002: three) were directors of the Company whose emoluments are included in the disclosure in note 7(a) above. The emoluments of the remaining two (2002: two) individuals within the band of HK\$1,000,001 to HK\$1,500,000 (2002: HK\$1,000,001 to HK\$1,500,000) were as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>2,616</b>	2,760
Retirement benefits scheme contributions	<b>24</b>	24
	<b><u>2,640</u></b>	<u>2,784</u>

## 8. TAXATION CREDIT

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

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

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

## 9. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$149,362,000 (2002: HK\$195,563,000) and the weighted average number of 2,993,968,000 (2002: 2,722,172,000) ordinary shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of the exercise of the potential shares since their exercise would result in a reduction in loss per share.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 10. PROPERTY, PLANT AND EQUIPMENT

	<b>Leasehold land and building</b>	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Vehicles, furniture and equipment</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>					
<b>COST</b>					
At 1st April, 2002	128,400	31,759	15,429	55,792	231,380
Additions	–	285	–	6,539	6,824
Disposals	–	–	(140)	(75)	(215)
Disposal of subsidiaries	–	–	–	(1,577)	(1,577)
	<u>128,400</u>	<u>32,044</u>	<u>15,289</u>	<u>60,679</u>	<u>236,412</u>
At 31st March, 2003	128,400	32,044	15,289	60,679	236,412
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>					
At 1st April, 2002	77,162	20,924	11,819	35,203	145,108
Provided for the year	2,254	3,603	193	4,907	10,957
Eliminated on disposals	–	–	(50)	(43)	(93)
Eliminated on disposal of subsidiaries	–	–	–	(355)	(355)
	<u>79,416</u>	<u>24,527</u>	<u>11,962</u>	<u>39,712</u>	<u>155,617</u>
At 31st March, 2003	79,416	24,527	11,962	39,712	155,617
<b>NET BOOK VALUES</b>					
At 31st March, 2003	<u>48,984</u>	<u>7,517</u>	<u>3,327</u>	<u>20,967</u>	<u>80,795</u>
At 31st March, 2002	<u>51,238</u>	<u>10,835</u>	<u>3,610</u>	<u>20,589</u>	<u>86,272</u>

The leasehold land and building of the Group at 31st March, 2003 is situated in Hong Kong and held under medium-term lease.

At the balance sheet date, included in vehicles, furniture and equipment is an asset held under a finance lease with net book value of HK\$153,000 (2002: Nil).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 11. GOODWILL

	<b>THE GROUP</b>
	HK\$'000
COST	
At 1st April, 2002	11,333
Disposal of subsidiaries	(3,333)
	<hr/>
At 31st March, 2003	8,000
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1st April, 2002	8,278
Amortised for the year	220
Eliminated on disposal of subsidiaries	(498)
	<hr/>
At 31st March, 2003	8,000
	<hr/>
NET BOOK VALUES	
At 31st March, 2003	–
	<hr/> <hr/>
At 31st March, 2002	3,055
	<hr/> <hr/>

Goodwill is amortised using the straight line method over the estimated useful life of twelve years.

## 12. DEVELOPMENT COSTS

	<b>THE GROUP</b>
	HK\$'000
COST	
At 1st April, 2002	107,900
Additions	14,920
Disposal of subsidiaries	(36,532)
	<hr/>
At 31st March, 2003	86,288
	<hr/>
AMORTISATION	
At 1st April, 2002	26,525
Amortised for the year	18,431
Eliminated on disposal of subsidiaries	(14,174)
	<hr/>
At 31st March, 2003	30,782
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NET BOOK VALUES	
At 31st March, 2003	55,506
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At 31st March, 2002	81,375
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# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 12. DEVELOPMENT COSTS (continued)

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

## 13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	374,246	374,246
Less: Impairment loss recognised	(293,537)	(293,537)
	<u>80,709</u>	<u>80,709</u>

Particulars of the Company's principal subsidiaries as at 31st March, 2003 are as follows:

Name	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
			%	
Citicomics Limited	Hong Kong	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
Culturecom Holdings (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$2	100	Investment holding
Culturecom Limited	Hong Kong	HK\$1,000	100	Investment holding and publishing

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 13. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Culturecom Investments Limited	Hong Kong	HK\$2	100	Investment holding and securities trading
Culture.com Technology Limited	Hong Kong	HK\$2	100	Development of Chinese language computer processor
Culturecom Retail Limited	Hong Kong	HK\$2	100	Comics retailing
Culture.com Technology (BVI) Limited	BVI/Hong Kong	US\$1	100	Investment holding
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 (Note)	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

Note: A wholly owned foreign enterprise for a period of ten years commencing from 6th June, 2000.

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

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results of assets or liabilities of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 14. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Amounts due from subsidiaries	<b>831,147</b>	753,297
Allowances for bad and doubtful debts	<b>(552,367)</b>	(402,367)
	<b><u>278,780</u></b>	<u>350,930</u>

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

At the balance sheet date, the directors reviewed the carrying value of the amounts due from its subsidiaries with reference to the business operated by these subsidiaries. Allowances of HK\$150,000,000 (2002: HK\$240,000,000) has been recognised in the Company's income statement.

## 15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Share of net assets	<b>45,273</b>	15,442	–	–
Loans to associates	<b>82,828</b>	71,603	<b>3,970</b>	3,970
Allowances for bad and doubtful debts	<b>(28,000)</b>	–	–	–
	<b><u>100,101</u></b>	<u>87,045</u>	<b><u>3,970</u></b>	<u>3,970</u>
Market value of listed shares	<b><u>9,000</u></b>	<u>43,500</u>	<u>–</u>	<u>–</u>

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

At the balance sheet date, the directors reviewed the carrying value of the loans to associates with reference to the business operated by these associates. Allowances of HK\$28,000,000 (2002: Nil) has been recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 15. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's principal associates as at 31st March, 2003 are as follows:

Name	Place of incorporation/ operation	Proportion of	Principal activities
		nominal value of issued share capital held by the Group %	
Chinese 2000 Holdings Limited	BVI/Hong Kong	49	Development of Chinese language computer operating system
DNA Incorporated	Cayman Islands/ Hong Kong	34	Research and development of novel vaccines for veterinary infections diseases
GlobalRes Group Limited	BVI/Hong Kong	30	Provision of computer and telecommunications services to travel agents
Impact Lift Technology Limited	BVI/Hong Kong	40	Research and development, and holding of biofertiliser for vegetable production
Q9 Technology Holdings Limited	Cayman Islands/ Hong Kong	24	Development, packing and retailing of the Chinese language encryption software
The Universal.Com Technology Limited	Hong Kong	30	Publishing

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	2,626	–
Premium on formation of a jointly controlled entity	4,267	–
	<u>6,893</u>	<u>–</u>

As at 31st March, 2003, the Group had interests in the following jointly controlled entity:

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

The premium on acquisition of a jointly controlled entity is amortised to the income statement on a straight-line basis over 12 years. Amortisation charge in the current year amounting to HK\$388,000 has been included in the amount reported as share of result of a jointly controlled entity in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

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■ CULTURECOM HOLDINGS LIMITED

## 17. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>THE GROUP</b>						
Listed equity securities:						
Hong Kong	–	–	50,168	20,183	50,168	20,183
Overseas	–	–	82	706	82	706
	–	–	50,250	20,889	50,250	20,889
Unlisted securities:						
Equity securities	3,385	3,385	–	4,000	3,385	7,385
Debt securities	1,200	–	–	16,036	1,200	16,036
	4,585	3,385	–	20,036	4,585	23,421
	4,585	3,385	50,250	40,925	54,835	44,310
Market value of listed securities	–	–	50,250	20,889	50,250	20,889

Carrying amount analysed for reporting purpose as:

	Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Current	–	–	50,250	40,925	50,250	40,925
Non-current	4,585	3,385	–	–	4,585	3,385
	4,585	3,385	50,250	40,925	54,835	44,310

## 18. INVENTORIES

The inventories of the Group represent finished goods which included an amount of HK\$8,395,000 (2002: Nil) carried at net realisable value at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 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	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	6,422	9,578
61 – 90 days	916	1,768
Over 90 days	5,156	4,153
	<u>12,494</u>	<u>15,499</u>

## 20. TRADE CREDITORS

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	3,253	6,075
61 – 90 days	240	390
Over 90 days	2,554	962
	<u>6,047</u>	<u>7,427</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 21. OBLIGATIONS UNDER A FINANCE LEASE

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

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

## 22. SHARE CAPITAL

	Number of shares		Share capital	
	2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
<b>Ordinary shares of HK\$0.10 each</b>				
Authorised:				
At 1st April and at 31st March	<u>4,000,000</u>	<u>4,000,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:				
At 1st April	2,787,560	2,710,160	278,756	271,016
Exercise of share options	–	5,000	–	500
Exercise of warrants	226,440	72,400	22,644	7,240
At 31st March	<u>3,014,000</u>	<u>2,787,560</u>	<u>301,400</u>	<u>278,756</u>

## 23. WARRANTS

During the year, registered holders of 226,440,000 units of the outstanding warrants exercised their rights to subscribe for 226,440,000 shares in the Company at HK\$0.27 per share. The remaining 1,160,000 outstanding warrants were lapsed on 10th May, 2002.

## 24. SHARE OPTION SCHEME

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

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

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

## 24. SHARE OPTION SCHEME (continued)

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

- (viii) On 21st August, 2002, the Old Option Scheme was resolved by the shareholders of the Company to have been terminated thereon. However, the options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

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

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

- (i) The purpose is to provide incentives to:
- award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest (“Invested Entity”); and
  - recruit and retain high-calibre employees and attract human resources that are valuable to the Group and/or Invested Entity.
- (ii) The participants included any employee, director, supplier, agent, consultant, adviser strategist, contractor, subcontractor, expert or customer of the Group and/or Invested Entity.
- (iii) The maximum number of shares in respect of which options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 301,399,964 shares, representing 10% of the issued share capital of the Company as at the date of the passing of the ordinary resolution. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

## 24. SHARE OPTION SCHEME (continued)

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

- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of directors upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (viii) The exercise price of an option should not be less than the highest of:
  - the closing price of the shares on the date of grant which must be a trading day;
  - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of the share.
- (ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 20th August, 2012.

No options pursuant to the New Option Scheme were granted during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 24. SHARE OPTION SCHEME (continued)

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

The following table discloses details of the Company’s share options held by the directors and the employees of the Group and movements in such holdings during the year:

Date of option granted	Exercisable period	Exercise price	Number of options					
			Outstanding at 1.4.2001	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2002	Transfer during the year	Outstanding at 31.3.2003
		HK\$					(Note)	
<b>Directors</b>								
27.8.1999	27.8.1999 – 26.8.2009	0.264	12,000,000	–	–	12,000,000	–	12,000,000
3.3.2000	3.3.2000 – 2.3.2010	1.68	12,065,000	–	(2,000,000)	10,065,000	1,000,000	11,065,000
<b>Employees</b>								
27.8.1999	27.8.1999 – 26.8.2009	0.264	5,000,000	(5,000,000)	–	–	–	–
3.3.2000	3.3.2000 – 2.3.2010	1.68	36,335,000	–	(7,800,000)	28,535,000	(1,000,000)	27,535,000
			<u>65,400,000</u>	<u>(5,000,000)</u>	<u>(9,800,000)</u>	<u>50,600,000</u>	<u>–</u>	<u>50,600,000</u>

*Note:* Mr. Wan Xiaolin joined the Group as an employee in January 2000 and was granted options by the Company on 3rd March, 2000. He was appointed as an executive director of the Company on 1st July, 2002 and accordingly his options were reclassified to the category of “Directors”.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 25. RESERVES

	Share premium	Contribution surplus	Goodwill reserve	Other reserve	Capital redemption reserve	Translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>								
At 1st April, 2001	553,860	171,671	(67,143)	–	446	–	(334,642)	324,192
Exercise of share options	820	–	–	–	–	–	–	820
Net proceeds from issue of warrants, net of issue expenses	–	–	–	24,763	–	–	–	24,763
Exercise of warrants	12,172	–	–	–	–	–	–	12,172
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
Exercise of warrants	38,495	–	–	–	–	–	–	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	–	–	(18,690)	–	–	–	–
Exchange loss on translation of overseas operations not recognised in the income statement	–	–	–	–	–	18	–	18
Gain on expiry of warrants	–	–	–	(97)	–	–	–	(97)
Net loss for the year	–	–	–	–	–	–	(149,362)	(149,362)
At 31st March, 2003	<u>630,013</u>	<u>171,671</u>	<u>(62,948)</u>	<u>1,500</u>	<u>446</u>	<u>(307)</u>	<u>(679,567)</u>	<u>60,808</u>
Attributable to:								
Company and subsidiaries	630,013	171,671	(62,948)	–	446	(307)	(661,848)	77,027
Associates	–	–	–	1,500	–	–	(17,719)	(16,219)
	<u>630,013</u>	<u>171,671</u>	<u>(62,948)</u>	<u>1,500</u>	<u>446</u>	<u>(307)</u>	<u>(679,567)</u>	<u>60,808</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 25. RESERVES (continued)

	Share premium HK\$'000	Contribution surplus HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1st April, 2001	553,860	262,143	–	446	(436,262)	380,187
Exercise of share options	820	–	–	–	–	820
Net proceeds from issue of warrants, net of issue expenses	–	–	24,763	–	–	24,763
Exercise of warrants	12,172	–	–	–	–	12,172
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
Exercise of warrants	38,495	–	–	–	–	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	–	(18,690)	–	–	–
Gain on expiry of warrants	–	–	(97)	–	–	(97)
Net loss for the year	–	–	–	–	(150,878)	(150,878)
At 31st March, 2003	630,013	262,143	–	446	(827,417)	65,185

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.

## 25. RESERVES (continued)

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

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

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

## 26. UNPROVIDED DEFERRED TAXATION

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

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	<b>2,092</b>	1,825
Taxation losses	<b>(48,692)</b>	(57,031)
	<u><b>(46,600)</b></u>	<u>(55,206)</u>

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

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	<b>267</b>	1,817
Taxation losses arising	<b>(7,876)</b>	(14,872)
Release of tax losses in respect of disposal of subsidiaries	<b>16,215</b>	–
	<u><b>8,606</b></u>	<u>(13,055)</u>

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



# NOTES TO THE FINANCIAL STATEMENTS

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■ CULTURECOM HOLDINGS LIMITED

## 27. DISPOSAL OF SUBSIDIARIES

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	<b>1,222</b>	–
Development costs	<b>22,358</b>	–
Trade debtors	<b>75</b>	–
Inventories	<b>303</b>	–
Other debtors, deposits and prepayments	<b>1,820</b>	–
Bank balances	<b>2,318</b>	–
Trade creditors	<b>(3)</b>	–
Other creditors and accrued charges	<b>(1,688)</b>	–
	<b>26,405</b>	–
Goodwill	<b>2,835</b>	–
Interests in associates	<b>(15,733)</b>	–
Gain on disposal of subsidiaries	<b>16,328</b>	–
Consideration, satisfied by other investments	<b>29,835</b>	–

Analysis of net outflow of cash and cash equivalent in respect of the disposal of subsidiaries:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Bank balances	<b>(2,318)</b>	–

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

The subsidiaries disposed of during the year contributed HK\$2,051,000 to the Group's turnover and had contributed an operating loss of HK\$16,907,000 to the Group's operating results.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 28. ACQUISITION OF SUBSIDIARIES

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
NET ASSETS ACQUIRED:		
Bank balances and cash	–	9,523
Minority interests	–	(3,333)
	<u>–</u>	<u>6,190</u>
Goodwill	–	11,333
	<u>–</u>	<u>17,523</u>
Consideration	–	17,523
	<u>–</u>	<u>17,523</u>
Satisfied by:		
Cash	–	8,360
Deposit paid for acquisition of subsidiaries	–	9,163
	<u>–</u>	<u>17,523</u>
	<u>–</u>	<u>17,523</u>

Analysis of net cash inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Cash consideration	–	(8,360)
Bank balances and cash acquired	–	9,523
	<u>–</u>	<u>1,163</u>
	<u>–</u>	<u>1,163</u>

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

## 29. MAJOR NON-CASH TRANSACTIONS

- (i) During the year, pursuant to an agreement entered into between the Company and eForce Holdings Limited (“eForce”), the Company disposed of its 51% equity interest in the share capital of Chinese 2000 Holdings Limited (“Chinese 2000”) to eForce for a consideration of HK\$38,250,000. The consideration was satisfied by the issue and allotment of 170,000,000 new ordinary shares of eForce at HK\$0.225 per share.

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

- (ii) For the year ended 31st March, 2002, deposits for acquisition of investments of approximately HK\$14,336,000 was transferred to interests in associates.
- (iii) For the year ended 31st March, 2002, 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.
- (iv) For the year ended 31st March, 2002, other debtors, deposits and prepayments of approximately HK\$42,097,000 was transferred to development costs.
- (v) During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value of the inception of the finance leases of HK\$168,000 (2002: Nil).

## 30. RETIREMENT BENEFITS SCHEMES

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

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

The total cost charged to income statements of HK\$1,742,000 (2002: HK\$150,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 31. RELATED PARTY TRANSACTIONS

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

	Rental income received from related companies		Management fee received from related companies		Amounts due from related companies		Amounts due to related companies	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	<u>634</u>	<u>265</u>	<u>30</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Subsidiaries of a shareholder	<u>562</u>	<u>958</u>	<u>–</u>	<u>30</u>	<u>6,199</u>	<u>4,106</u>	<u>975</u>	<u>2,738</u>

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, interest free and have no fixed repayment terms.

## 32. OPERATING LEASE COMMITMENTS

### The Group as lessee

At 31st March, 2003, the Group had commitments for future minimum lease payment in respect of rented premises which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	<u>727</u>	<u>68</u>
In the second to fifth year inclusive	<u>161</u>	<u>–</u>
	<u>888</u>	<u>68</u>

Operating lease payments represent rentals payable by the Group for its office premise. Lease is negotiated for an average term of two years and rentals is fixed for an average of two years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

■ CULTURECOM HOLDINGS LIMITED

## 32. OPERATING LEASE COMMITMENTS (continued)

### The Group as lessor

Property rental income earned during the year was HK\$2,441,000 (2002: HK\$1,934,000).

At 31st March, 2003, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,894	1,206
In the second to fifth year inclusive	1,363	177
	<u>3,257</u>	<u>1,383</u>

Lease is negotiated for an average term of two years.

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

## 33. CONTINGENT LIABILITIES

### The Group and the Company

At 31st March, 2003, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2002: 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 defence. Accordingly, no provision for this amount has been provided in the financial statements.

## 34. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statement in respect of the acquisition of a jointly controlled entity	<u>-</u>	<u>9,452</u>

At the balance sheet date, the Company has no significant capital commitments.

## 35. POST BALANCE SHEET EVENTS

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

The net proceeds of the placing of approximately HK\$24.4 million was intended to be used for general working capital of the Group.

- (b) Pursuant to a non-binding term sheet dated 10th June, 2003 signed among the Company, eForce and Transmeta Corporation (“Transmeta”), a corporation incorporated in the USA and its shares are listed on the NASDAQ Stock Market, Inc., eForce and the Company will transfer its 51% and 49%, respectively, in Chinese 2000 Holdings Limited to Chinese 2 Linux (Holdings) Limited (“C2L”) and Transmeta will license to a wholly-owned subsidiary of C2L exclusive rights to the Midori operating system and the related trademark rights in relation to a proposal for commercial exploitation of the Linux-based Midori operating system developed by Transmeta through C2L and in return C2L will issue new shares to the Company, eForce and Transmeta.