

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

1. GENERAL

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

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

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

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

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

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

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

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Jointly controlled entity

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

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

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

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

Investments in securities

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

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

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

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

Research and development costs

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

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

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

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

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

Inventories

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

Foreign currencies

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

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

Retirement benefits costs

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

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

Income statement for the year ended 31st March, 2004

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>39,184</u>	<u>1,471</u>	<u>–</u>	<u>40,655</u>
Segment results	<u>377</u>	<u>(29,409)</u>	<u>(15,490)</u>	<u>(44,522)</u>
Unallocated corporate expenses				<u>(11,747)</u>
Loss from operations				(56,269)
Share of results of associates	–	(7,654)	(1,860)	(9,514)
Share of result of a jointly controlled entity	–	(1,136)	–	(1,136)
Gain on disposal of an associate	–	–	1,995	1,995
Loss on deemed disposal of an associate	–	(1,548)	–	(1,548)
Finance costs				(9)
Impairment loss recognised in respect of goodwill reserve	–	(6,000)	–	<u>(6,000)</u>
Loss before taxation				(72,481)
Taxation				<u>–</u>
Loss before minority interests				(72,481)
Minority interests				<u>14</u>
Net loss for the year				<u>(72,467)</u>

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

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

Other information for the year ended 31st March, 2004

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

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

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

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

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

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS				
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>
LIABILITIES				
Segment liabilities	<u>13,365</u>	<u>3,612</u>	<u>411</u>	17,388
Unallocated corporate liabilities				<u>3,796</u>
Consolidated total liabilities				<u>21,184</u>

Other information for the year ended 31st March, 2003

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

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Geographical segments**

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

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

	Turnover		Loss from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	40,373	56,715	(39,345)	(101,628)
PRC	282	2,423	(16,924)	(22,204)
	<u>40,655</u>	<u>59,138</u>	<u>(56,269)</u>	<u>(123,832)</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment and development costs	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	404,694	373,634	3,411	14,234
PRC	9,440	9,772	7,136	7,510
	<u>414,134</u>	<u>383,406</u>	<u>10,547</u>	<u>21,744</u>

5. LOSS FROM OPERATIONS

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

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

6. FINANCE COSTS

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

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

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

Emoluments of the directors were within the following bands:

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

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

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

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

(b) Employees' emoluments

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

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

Their emoluments were within the following bands:

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

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

8. TAXATION CREDIT

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

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

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

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

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

9. LOSS PER SHARE

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

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

10. PROPERTY, PLANT AND EQUIPMENT

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

The leasehold land and building of the Group at 31st March, 2004 are situated in Hong Kong and held under a medium-term lease.

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

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

11. GOODWILL

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

12. DEVELOPMENT COSTS

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

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

13. INVESTMENTS IN SUBSIDIARIES

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

Particulars of the Company's principal subsidiaries as at 31st March, 2004 are as follows:

Name	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Citicomics Limited	Hong Kong	Ordinary HK\$2	100	Publishing
Chinese 2000 Online (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	100	Development of Chinese internetwork computer and products
Chinfosys Limited	Hong Kong	Ordinary HK\$2	100	Provision of information technology and system integration services
Culturecom Centre Limited	Hong Kong	Ordinary HK\$2	100	Property holding
Culturecom e-publication Limited	Hong Kong	Ordinary HK\$2	100	Development of electronic publication
Culturecom Enterprises Limited	Hong Kong	Ordinary HK\$2	100	Management services
Culturecom Holdings (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US\$2	100	Investment holding
Culturecom Limited	Hong Kong	Ordinary HK\$1,000	100	Investment holding and publishing
Culturecom Investments Limited	Hong Kong	Ordinary HK\$2	100	Investment holding and securities trading

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

13. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
			%	
Culture.com Technology Limited	Hong Kong	Ordinary HK\$2	100	Development of Chinese language computer processor
Culture.com Technology (BVI) Limited	BVI/Hong Kong	Ordinary US\$1	100	Investment holding
Growlong Company Limited	Hong Kong	Ordinary HK\$10,000	100	Licensing
Culturecom Online Limited	Hong Kong	Ordinary HK\$2	100	Electronic publication
文傳漫畫設計(深圳)有限公司 (Note)	PRC	Registered HK\$1,000,000	100	Comics design and production
SNIIC Technology Limited	Hong Kong	Ordinary HK\$50,000	100	Development of secure numerical internetwork information centre
Winway H.K. Investments Company Limited	Hong Kong	Ordinary HK\$2	100	Investment holding and securities trading

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

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

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

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

14. AMOUNTS DUE FROM SUBSIDIARIES

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

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

15. INTERESTS IN ASSOCIATES

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

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

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

15. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's principal associates as at 31st March, 2004 are as follows:

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

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

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

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

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

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

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

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

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

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

17. INVESTMENTS IN SECURITIES

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

18. INVENTORIES

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

19. TRADE DEBTORS

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

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

20. TRADE CREDITORS

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

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

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

21. OBLIGATIONS UNDER A FINANCE LEASE

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

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

22. SHARE CAPITAL

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

23. WARRANTS

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

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

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

On 31st March, 2004, the Company had 320,280,000 outstanding 2005 Warrants conferring rights to subscribe up to approximately HK\$52,846,000 in cash for shares of HK\$0.10 each in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as of 31st March, 2004, result in the issue of 320,280,000 additional shares of HK\$0.10 each in the Company.

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

24. SHARE OPTION SCHEME**(A) Share option scheme adopted on 15th June, 1993 (“Old Option Scheme”)**

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

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

24. SHARE OPTION SCHEME (continued)

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

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

- (i) The purpose is to provide incentives to:
 - award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest (“Invested Entity”); and
 - recruit and retain high-calibre employees and attract human resources that are valuable to the Group.
- (ii) The participants included any employee, director, supplier, agent, consultant, adviser strategist, contractor, subcontractor, expert or customer of the Group and/or Invested Entity.
- (iii) The maximum number of shares of the Company in respect of which share options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. At 31st March, 2004, the total number of shares of the Company available for issue under the Company’s New Option Scheme was 1,399,964 (2003: 301,399,964) shares, representing 0.04% (2003: 10%) of the issued share capital of the Company as at the date. However, the total maximum number of shares of the Company which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares of the Company in issue from time to time.
- (iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding share options and the options cancelled) under any share option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares of the Company in issue from time to time.

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

24. SHARE OPTION SCHEME (continued)**(B) Share option scheme adopted on 21st August, 2002 (“New Option Scheme”)**
(continued)

- (v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors and provided in the offer of grant of share option.
- (vi) The exercisable period should be any period fixed by the board of directors upon grant of the share option but in any event the share option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (viii) The exercise price of a share option must be the highest of:
- the closing price of a share of the Company on the date of grant which must be a trading day;
 - the average closing price of a share of the Company for the 5 trading days immediately preceding the date of grant; and
 - the nominal value of a share of the Company.
- (ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 20th August, 2012.

24. SHARE OPTION SCHEME (continued)**(B) Share option scheme adopted on 21st August, 2002 (“New Option Scheme”)**
(continued)

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

Category of participants	Name of scheme	Date of grant	Exercisable period	Exercise price per share	Number of share options						
					Outstanding at 1.4.2002	Transferred during 2002/03	Outstanding at 31.3.2003 and 1.4.2003	Granted during 2003/04	Exercised during 2003/04 (note)	Lapsed during 2003/04	Outstanding at 31.3.2004
					HK\$						
Directors	Old Option Scheme	27.8.1999	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	1.680	10,065,000	1,000,000	11,065,000	–	–	–	11,065,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	11,000,000	–	–	11,000,000
					<u>22,065,000</u>	<u>1,000,000</u>	<u>23,065,000</u>	<u>11,000,000</u>	<u>–</u>	<u>–</u>	<u>34,065,000</u>
Employees	Old Option Scheme	3.3.2000	3.3.2000 – 2.3.2010	1.680	28,535,000	(1,000,000)	27,535,000	–	–	(2,500,000)	25,035,000
		19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	173,000,000	(124,800,000)	–	48,200,000
					<u>28,535,000</u>	<u>(1,000,000)</u>	<u>27,535,000</u>	<u>173,000,000</u>	<u>(124,800,000)</u>	<u>(2,500,000)</u>	<u>73,235,000</u>
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	116,000,000	(75,000,000)	–	41,000,000
					<u>50,600,000</u>	<u>–</u>	<u>50,600,000</u>	<u>300,000,000</u>	<u>(199,800,000)</u>	<u>(2,500,000)</u>	<u>148,300,000</u>

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

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

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the share options are exercised, and no charge is recognised in the income statement in respect of the value of share options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

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

25. RESERVES

	Share premium HK\$'000	Contribution surplus HK\$'000	Goodwill reserve HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 2002	572,828	171,671	(62,948)	20,287	446	(325)	(530,205)	171,754
Exchange loss on translation of overseas operations not recognised in the income statement	-	-	-	-	-	18	-	18
Exercise of warrants	38,495	-	-	-	-	-	-	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	-	-	(18,690)	-	-	-	-
Gain on expiry of warrants	-	-	-	(97)	-	-	-	(97)
Net loss for the year	-	-	-	-	-	-	(149,362)	(149,362)
At 31st March, 2003	630,013	171,671	(62,948)	1,500	446	(307)	(679,567)	60,808
Exchange gain on translation of overseas operations not recognised in the income statement	-	-	-	-	-	170	-	170
Proceeds from issue of warrants, net of expenses	-	-	-	23,774	-	-	-	23,774
Exercise of warrants	7,132	-	-	-	-	-	-	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	-	-	(6,066)	-	-	-	-
Exercise of share options	32,967	-	-	-	-	-	-	32,967
Impairment loss recognised (<i>note</i>)	-	-	6,000	-	-	-	-	6,000
Net loss for the year	-	-	-	-	-	-	(72,467)	(72,467)
At 31st March, 2004	<u>676,178</u>	<u>171,671</u>	<u>(56,948)</u>	<u>19,208</u>	<u>446</u>	<u>(137)</u>	<u>(752,034)</u>	<u>58,384</u>
Attributable to:								
Company and subsidiaries	676,178	171,671	(56,948)	17,708	446	(137)	(724,801)	84,117
Associates	-	-	-	1,500	-	-	(27,233)	(25,733)
	<u>676,178</u>	<u>171,671</u>	<u>(56,948)</u>	<u>19,208</u>	<u>446</u>	<u>(137)</u>	<u>(752,034)</u>	<u>58,384</u>

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

25. RESERVES (continued)

	Share premium HK\$'000	Contribution surplus HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1st April, 2002	572,828	262,143	18,787	446	(676,539)	177,665
Exercise of warrants	38,495	–	–	–	–	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	–	(18,690)	–	–	–
Gain on expiry of warrants	–	–	(97)	–	–	(97)
Net loss for the year	–	–	–	–	(150,878)	(150,878)
At 31st March, 2003	630,013	262,143	–	446	(827,417)	65,185
Proceeds from issue of warrants, net of expenses	–	–	23,774	–	–	23,774
Exercise of warrants	7,132	–	–	–	–	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	–	(6,066)	–	–	–
Exercise of share options	32,967	–	–	–	–	32,967
Net loss for the year	–	–	–	–	(67,253)	(67,253)
At 31st March, 2004	676,178	262,143	17,708	446	(894,670)	61,805

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

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

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

25. RESERVES (continued)

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

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

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

26. DEFERRED TAXATION

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

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

26. DEFERRED TAXATION (continued)

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

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

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

27. MAJOR NON-CASH TRANSACTIONS

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

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

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

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

28. RETIREMENT BENEFITS SCHEMES

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

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

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

29. RELATED PARTY TRANSACTIONS

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

	Sales income received from related companies		Rental income received from related companies		Management fee received from related companies		Promotional fee paid to related companies		Amounts due from related companies		Amounts due to related companies	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	<u>122</u>	<u>-</u>	<u>730</u>	<u>634</u>	<u>120</u>	<u>30</u>	<u>1,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subsidiaries of a shareholder	<u>-</u>	<u>-</u>	<u>396</u>	<u>562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,668</u>	<u>6,199</u>	<u>488</u>	<u>975</u>

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

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

The amounts due from and to related companies are unsecured, interest free and have no fixed repayment terms.

30. OPERATING LEASE COMMITMENTS

The Group as lessee

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

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

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

The Group as lessor

Property rental income earned during the year was HK\$3,115,000 (2003: HK\$2,441,000).

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

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

Lease is negotiated for an average term of two years.

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

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

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

- (a) At 31st March, 2004, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2003: HK\$11,967,000) in relation to a guarantee given to a plaintiff. Based on the advice of its legal adviser, the directors are of the view that the Company has reasonable grounds to defence. Accordingly, no provision for this amount has been provided in the financial statements.
- (b) During the year, the Company and eForce, on a joint and several basis, provided a guarantee to Transmeta in respect of the payment obligations of service fees of China Ever Limited, a wholly-owned subsidiary of C2L, the associate of the Group. Pursuant to the agreement between the Company, eForce, China Ever Limited and Transmeta, China Ever Limited shall pay a service fee of US\$66,000 per month to Transmeta for a term of 20 months from 22nd November, 2003.

32. CAPITAL COMMITMENTS

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

33. COMPARATIVE FIGURES

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