

# NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 MARCH 2005

## 1. GENERAL

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

The Company is an investment holding company. Its subsidiaries were principally engaged in the publication of comics books, multimedia development and operation of restaurants in Hong Kong. During the year, the Group has commenced the process of discontinuing its operation of restaurants.

## 2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 3	Business combinations
HKAS 36	Impairment of assets
HKAS 38	Intangible assets

HKFRS 3 "Business combinations" and HKAS 36 "Impairment of assets"

HKFRS 3 applies to accounting for business combination for which the agreement date is on or after 1 January 2005. The early adoption of HKFRS 3 and HKAS 36 from 1 April 2004 has resulted in the Group ceasing annual amortisation of goodwill and to test for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently).

In the interim unaudited financial statements of the Group for the six months ended 30 September 2004, HKFRS 3 was not elected for early adoption because the management of the Company considered that there was insufficient time to conduct a detailed study or to obtain a conclusive professional advice in respect of the impact of the HKFRS 3. For the six months ended 30 September 2004, an amortisation of goodwill of approximately HK\$904,800 was recorded. The management now considers that the adoption of HKFRS 3 is more realistic to reflect the value of the goodwill as there will be assessment of impairment of goodwill periodically. As a result, the impact of the early adoption of HKFRS 3 from 1 April 2004 would be the reversal of the amortisation of goodwill of approximately HK\$904,800 that was recorded for the six months ended 30 September 2004. Should HKFRS 3 not be adopted from 1 April 2004, amortisation of goodwill of approximately HK\$3,792,000 would have been recorded in the financial statements for the year ended 31 March 2005.

The early adoption of HKAS 38 did not result in significant changes to the Group's accounting policies.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of consolidation

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

The results of subsidiaries acquired and 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.

### 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 the subsidiaries at the date of acquisition.

Goodwill is tested annually for impairment, and whenever there is an indication that the cash generating unit to which the goodwill is allocated may be impaired. An impairment loss is determined by comparing the carrying amount of the cash generating unit, including the goodwill, with the recoverable amount of the cash generating unit. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Reversal of impairment loss of goodwill is prohibited.

### Revenue recognition

Sales of comics books are recognised when comics books are sold.

Sales of goods are recognised when goods are delivered.

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreement.

Membership and online comics viewing income are recognised on a basis that reflects the timing, nature and value of the benefits provided.

Service fees are recognised when services are provided.

Rental income is recognised on a straight-line basis over the relevant lease term.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

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

Advertising income is recognised on the relevant publication date of the Group's comics books.

### Investments in subsidiaries

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

### Property, plant and equipment

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

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

Leasehold land	Over the term of the leases
Buildings	Over the estimated useful lives of 50 years or over the term of the leases, if less than 50 years
Furniture and equipment	10 – 33 $\frac{1}{3}$ %
Fixtures	10 – 20% or over the term of the leases, whichever is shorter
Motor vehicles	20 – 25%

Initial expenditure incurred for crockery, utensils, linens and uniforms is capitalised and no depreciation is provided thereon. The cost of subsequent replacement for these items is charged to the income statement as and when incurred.

The gain or loss arising on 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.

### Intangible assets

Intangible assets, which represent the copyrights and trademarks, are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its 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. An 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.

### **Operating leases**

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight-line basis over the relevant lease term.

### **Inventories**

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

### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated 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 exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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 income statement items 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 the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered in the restaurants during the year, and is analysed as follows:

	2005 HK\$'000	2004 HK\$'000
Sale of comics books	98,440	6,049
Royalty income	5,590	—
Sale of merchandised goods	2,064	—
Membership and online comics viewing income	1,027	—
Sale of comics scripts	186	—
Sale of goods in restaurants	14,742	146,459
Services rendered	951	13,957
	<u>123,000</u>	<u>166,465</u>

Services rendered represent surcharge for services provided in the restaurants.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into two main operating divisions, namely, publication and distribution of comics books and multimedia development. These divisions are the basis on which the Group reports its primary segment information. The Group was in the process of discontinuing its restaurant operations.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Income statement

	Continuing operations				Discontinuing operations			
	Publication and distribution of comics books		Multimedia development		Restaurant operations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	106,556	6,049	751	–	15,693	160,416	123,000	166,465
Segment profit (loss)	20,393	1,764	170	–	(1,302)	(6,118)	19,261	(4,354)
Unallocated corporate expenses							(5,303)	(4,326)
Profit (loss) from operations							13,958	(8,680)
Finance costs							(1,392)	(1,851)
Gain on disposal of subsidiaries					547	26,023	547	26,023
Profit before tax							13,113	15,492
Income tax credit (expense)							1,617	(528)
Profit before minority interests							14,730	14,964





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Balance sheet

	Continuing operations				Discontinuing operations			
	Publication and distribution of comics books		Multimedia development		Restaurant operations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>ASSETS</b>								
Segment assets	<u>53,359</u>	<u>2,789</u>	<u>24,883</u>	<u>–</u>	<u>2,488</u>	<u>8,243</u>	<u>80,730</u>	<u>11,032</u>
Unallocated corporate assets							<u>129,979</u>	<u>53,336</u>
Consolidated total assets							<u>210,709</u>	<u>64,368</u>
<b>LIABILITIES</b>								
Segment liabilities	<u>15,842</u>	<u>1,019</u>	<u>3,071</u>	<u>–</u>	<u>785</u>	<u>7,314</u>	<u>19,698</u>	<u>8,333</u>
Unallocated corporate liabilities							<u>74,756</u>	<u>1,394</u>
Consolidated total liabilities							<u>94,454</u>	<u>9,727</u>





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Other information

	Continuing operations				Discontinuing operations			
	Publication and distribution of comics books		Multimedia development		Restaurant operations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Additions of property, plant and equipment	456	–	–	–	22	15,761	478	15,761
Additions of intangible assets on acquisition of subsidiaries	3,364	–	–	–	–	–	3,364	–
Additions of property, plant and equipment on acquisition of subsidiaries	17,041	–	24	–	–	–	17,065	–
Depreciation and amortisation	2,074	–	–	–	854	6,346	2,928	6,346
Loss on disposal/write off of property, plant and equipment	–	–	–	–	–	2,794	–	2,794
Impairment loss recognised in respect of property, plant and equipment	–	–	–	–	139	–	139	–

### Geographical segments

The Group's turnover and profit before tax for both years are substantially derived from Hong Kong. Accordingly, no analysis by geographical segment is presented.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 6. OTHER OPERATING INCOME

	2005 HK\$'000	2004 HK\$'000
Advertising income	788	–
Bank interest income	28	7
Rental income (2004: No outgoings)	–	393
Others	798	590
	<u>1,614</u>	<u>990</u>

## 7. PROFIT (LOSS) FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Amortisation of intangible assets (included in administrative expenses)	849	100
Auditors' remuneration	790	584
Depreciation and amortisation on		
– Owned assets	2,079	6,197
– Assets held under finance leases	–	49
Impairment loss recognised in respect of property, plant and equipment	139	–
Intangible assets written off	117	–
Operating lease payments in respect of rented premises	2,043	22,452
Staff costs, including directors' emoluments (note 10) and retirement benefits scheme contributions (note 12)	<u>43,650</u>	<u>53,558</u>

## 8. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on		
– Bank loans wholly repayable within five years	805	558
– Convertible notes	587	–
– Finance leases	–	10
– Other borrowings	–	1,283
	<u>1,392</u>	<u>1,851</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 9. DISCONTINUING OPERATIONS

In March 2005, the directors determined to phase out the Group's restaurant operations, which is located in Hong Kong. The Group's restaurant operations has permanently ceased in April 2005.

The results of the restaurant operations for the year were as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover	15,693	160,416
Cost of goods sold	(5,097)	(54,735)
Direct operating expenses	(11,203)	(86,757)
Other operating income	1	958
Selling and distribution costs	(148)	(4,085)
Administrative expenses	(548)	(21,915)
Gain on disposal of subsidiaries	547	26,023
(Loss) profit before tax	(755)	19,905
Income tax	—	—
(Loss) profit from ordinary activities after tax	(755)	19,905

During the year, the restaurant operations had net cash outflow of HK\$99,000 (2004: cash inflow of HK\$8,537,000) in operating activities and net cash inflow of HK\$2,153,000 (2004: net cash outflow of HK\$1,864,000) in respect of investing activities.

At the balance sheet date, the carrying amounts of the assets and liabilities of the restaurant operations are as follows:

	2005 HK\$'000	2004 HK\$'000
Total assets	2,488	8,243
Total liabilities	785	7,314





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 10. DIRECTORS' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
Fees to:		
Executive directors	1,586	2,051
Independent non-executive directors	510	480
	<u>2,096</u>	<u>2,531</u>
Other emoluments to executive directors:		
Salaries and other benefits	4,826	–
Retirement benefits scheme contributions	82	101
	<u>4,908</u>	<u>101</u>
	<u>7,004</u>	<u>2,632</u>

Emoluments of the directors were within the following bands:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	10	9
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	–
	<u>12</u>	<u>10</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The total emoluments of the remaining two (2004: two) highest paid individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	9,686	2,165
Retirement benefits scheme contributions	23	108
	<u>9,709</u>	<u>2,273</u>

Their emoluments were within the following bands:

	Number of individuals	
	2005	2004
Nil to HK\$1,000,000	–	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	–
	<u>2</u>	<u>2</u>

## 12. RETIREMENT BENEFITS SCHEME CONTRIBUTIONS

	2005 HK\$'000	2004 HK\$'000
Retirement benefits scheme contributions	1,166	43
Less: Forfeited contributions	–	–
	<u>1,166</u>	<u>143</u>

The Group operates three Mandatory Provident Fund Schemes ("MPF Schemes") for all qualifying employees. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the MPF Schemes, which contribution is matched by employees (to the extent of HK\$12,000 per annum).





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 13. INCOME TAX CREDIT (EXPENSE)

	2005 HK\$'000	2004 HK\$'000
Hong Kong:		
Provision for current year	(1,691)	(528)
Underprovision in prior year	(14)	–
Deferred tax credit (Note 20)	3,322	–
	<u>1,617</u>	<u>(528)</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

Income tax credit (expense) for the year can be reconciled to the profit per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before tax	<u>13,113</u>	<u>15,492</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(2,295)	(2,711)
Tax effect of expenses not deductible for tax purpose	(523)	(15)
Tax effect of tax losses/deferred tax assets not recognised	(532)	(2,515)
Utilisation of tax losses previously not recognised	1,042	157
Tax effect of income not taxable for tax purpose	1,428	4,556
Recognition of tax losses/deferred tax assets previously not recognised	2,517	–
Underprovision in prior year	(14)	–
Others	(6)	–
Income tax credit (expense) for the year	<u>1,617</u>	<u>(528)</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 14. EARNINGS PER SHARE

	2005 HK\$'000	2004 HK\$'000
Earnings for the purposes of basic earnings per share	11,084	13,534
Interest on convertible notes	587	—
Earnings for the purposes of diluted earnings per share	11,671	13,534
Weighted average number of shares for the purposes of basic earnings per share	696,334,317	417,600,538
Effect of dilutive potential shares:		
Share options	3,650,075	2,561,043
Convertible notes	58,710,502	—
Weighted average number of shares for the purpose of diluted earnings per share	758,694,894	420,161,581





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Crockery, utensils, linens and uniforms HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
<b>COST</b>					
At 1 April 2004	–	13,023	–	238	13,261
Additions	–	478	–	–	478
Acquired on acquisition of subsidiaries	15,281	1,257	527	–	17,065
Disposal of subsidiaries	–	(4,311)	–	(238)	(4,549)
Disposals/write-off	–	(4)	–	–	(4)
At 31 March 2005	15,281	10,443	527	–	26,251
<b>DEPRECIATION AND AMORTISATION/ IMPAIRMENT</b>					
At 1 April 2004	–	10,229	–	–	10,229
Provided for the year	287	1,484	308	–	2,079
Eliminated on disposal of subsidiaries	–	(2,440)	–	–	(2,440)
Eliminated on disposals/ write-off	–	(4)	–	–	(4)
Impairment loss recognised in the income statement	–	139	–	–	139
At 31 March 2005	287	9,408	308	–	10,003
<b>NET BOOK VALUES</b>					
At 31 March 2005	14,994	1,035	219	–	16,248
At 31 March 2004	–	2,794	–	238	3,032

The Group's leasehold land and buildings are situated in Hong Kong and are held under long leases.

The impairment loss recognised during the year of HK\$139,000 represents the recognition of a decrease in the recoverable amount of furniture, fixtures and equipment of a subsidiary as a result of the cessation of operations of this subsidiary subsequent to 31 March 2005.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group has pledged leasehold land and buildings having a net book value of HK\$14,994,000 (2004: Nil) to secure general banking facilities granted to the Group.

## 16. INVESTMENTS IN SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	150,298	—

At 31 March 2005, the particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activities
Jade Dynasty Holdings Limited ("JDH")	British Virgin Islands	Ordinary	US\$10,000	100%*	Investment holding
Jade Dynasty Publications Limited ("JDP")	Hong Kong	Ordinary	HK\$30,000,000	100%	Publication and investment holding
JD Global IP Rights Limited	British Virgin Islands	Ordinary	US\$1	100%	Holding of intellectual property rights
KINGcomics.com Limited	Hong Kong	Ordinary	HK\$2	100%	Provision of online comic viewing services and sales of related merchandised goods
Rich Delight Limited (subsequently known as "Jade Dynasty Comics Development Limited")	Hong Kong	Ordinary	HK\$2	100%	Operation of a restaurant





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activities
Rising Dragon Publications Limited	Hong Kong	Ordinary	HK\$100	100%	Sale of merchandised goods
Wide Creation Limited (subsequently known as "Yuk Long Animation Limited")	Hong Kong	Ordinary	HK\$2	100%	Publication of comics books
Yuk Long Animation Limited (formerly known as "Yuk Long Multimedia Limited")	Samoa	Ordinary	US\$1	100%	Development of animation and games
Yuk Long (Overseas) Limited	British Virgin Islands	Ordinary	US\$1	100%	Provision of agency and promotion services
Yuk Long Publishing (International) Limited	Hong Kong	Ordinary	HK\$10,000	100%	Publication
Yuk Long Cultural Development (Shenzhen) Limited	People's Republic of China	Registered capital	HK\$1,000,000	100%	Digital graphic design and software development

\* Other than this principal subsidiary which is directly held by the Company, all other principal subsidiaries are indirectly held by the Company.

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



# NOTES TO THE FINANCIAL STATEMENTS

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## 17. INTANGIBLE ASSETS

	Copyrights HK\$'000	Trademarks HK\$'000	Other HK\$'000	Total HK\$'000
THE GROUP COST				
At 1 April 2004	–	–	300	300
Acquired on acquisition of subsidiaries	3,213	151	–	3,364
Write-off	–	–	(300)	(300)
At 31 March 2005	3,213	151	–	3,364
AMORTISATION				
At 1 April 2004	–	–	100	100
Charge for the year	710	56	83	849
Eliminated on write-off	–	–	(183)	(183)
At 31 March 2005	710	56	–	766
NET BOOK VALUES				
At 31 March 2005	2,503	95	–	2,598
At 31 March 2004	–	–	200	200

Other intangible asset represented an exclusive right to use the name of Mr. Wong Yuk Man, Raymond, an independent third party, in the operations of a restaurant. The amount was written off upon the termination of the contract during the year.

Intangible assets are amortised on a straight-line basis over a range of 2 to 5 years.

## 18. GOODWILL

HK\$'000

THE GROUP COST	
Arising on acquisition of subsidiaries	41,025
Arising on acquisition of additional interests in subsidiaries	83,514
At 31 March 2005	124,539





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 19. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Amounts due from subsidiaries	33,361	359,622
Less: Allowance	(12,295)	(356,633)
	<u>21,066</u>	<u>2,989</u>

## 20. DEFERRED TAXATION

The following is the major deferred tax asset recognised by the Group and the Company, and the movement thereon during the current reporting year:

	THE GROUP Tax losses HK\$'000	THE COMPANY Tax losses HK\$'000
At 1 April 2003 and 1 April 2004	–	–
Credit to income statement (Note 13)	<u>3,322</u>	<u>1,166</u>
At 31 March 2005	<u>3,322</u>	<u>1,166</u>

At the balance sheet date, a deferred tax asset in respect of estimated unused tax losses of HK\$7,993,000 of certain subsidiaries (2004: HK\$17,647,000) available to offset against future profits has not been recognised in the financial statements of the Group due to the unpredictability of future profit streams of these subsidiaries.

## 21. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials and consumables	84	234
Merchandised goods	246	–
Work-in-progress	<u>21,054</u>	<u>–</u>
	<u>21,384</u>	<u>234</u>

Included in work-in-progress was staff costs of HK\$7,825,000 (2004: Nil) for the year.



# NOTES TO THE FINANCIAL STATEMENTS

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## 22. TRADE DEBTORS

The Group allows an average credit period of 90 days to its trade customers. In prior year, the Group does not define a fixed credit policy as its major trade debtors arise from credit card sales.

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	9,183	790
31 – 60 days	5,436	538
61 – 90 days	2,685	–
Over 90 days	4,339	–
	<u>21,643</u>	<u>1,328</u>

## 23. PLEDGE OF ASSETS

At 31 March 2005, the Group's leasehold land and buildings of HK\$14,994,000 (2004: Nil) and bank deposits of HK\$4,003,000 (2004: Nil) have been pledged to banks to secure general credit facilities granted to the Company and its subsidiaries.

## 24. TRADE CREDITORS

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	2,636	892
31 – 60 days	1,610	448
61 – 90 days	1,413	–
Over 90 days	2,862	–
	<u>8,521</u>	<u>1,340</u>





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 25. AMOUNT DUE TO A RELATED COMPANY THE GROUP

The related company was a company in which the substantial shareholder of the Company, Mr. Wong Chun Loong ("Mr. Wong"), has a beneficial interest. The related company became a subsidiary of the Company on 22 April 2004.

The amount was unsecured, interest free and was repayable on demand.

## 26. OTHER LOAN THE GROUP

The balance in prior year was secured, borne interest at the best lending rate per annum and was repayable on demand. During the year, the balance was fully repaid.

## 27. SHARE CAPITAL

	Notes	Par value of ordinary share HK\$	Number of ordinary shares	Amount HK\$'000
Authorised:				
At 1 April 2003, 31 March 2004 and 31 March 2005		0.002 each	<u>250,000,000,000</u>	<u>500,000</u>
Issued and fully paid:				
At 1 April 2003		0.002 each	357,122,600	714
Issued of shares	(1)	0.002 each	61,500,000	123
Issue of rights shares	(2)	0.002 each	139,540,866	279
Issue of shares as consideration for the rights issue expenses	(2)	0.002 each	<u>1,500,000</u>	<u>3</u>
At 31 March 2004		0.002 each	559,663,466	1,119
Issued in consideration for the acquisition of the issued share capital of JDH	(3)	0.002 each	84,442,718	169
Placing of new shares	(4)	0.002 each	<u>70,000,000</u>	<u>140</u>
At 31 March 2005			<u>714,106,184</u>	<u>1,428</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 27. SHARE CAPITAL (Continued)

Notes:

- (1) On 24 October 2003, the Company entered into a subscription agreement with an independent investor, Mr. Kei Kin Hung for subscription of 61,500,000 new shares of HK\$0.002 each in the Company at a price of HK\$0.31 per share. The new shares rank pari passu with the existing shares in all respects. The subscription was completed on 6 November 2003.
- (2) On 15 January 2004, 139,540,866 new shares of HK\$0.002 each were issued by way of rights issue on the basis of one rights share for every three existing shares then held at an issue price of HK\$0.33 per share ("Rights Issue") and 1,500,000 new shares of HK\$0.002 each at an issue price of HK\$0.33 per share were issued in settlement of the advisory fee payable to Oriental Patron Asia Limited in consideration of its service as one of the joint financial advisors to the Company in connection with the Rights Issue. These new shares rank pari passu with the existing shares in all respects.
- (3) On 22 April 2004, 83,442,718 new shares of HK\$0.002 each at an issue price of HK\$0.37 per share were issued as part of the consideration to acquire 51% interests in JDH and 1,000,000 new shares of HK\$0.002 each at an issue price of HK\$0.37 per share were issued in settlement of the advisory fee payable to Oriental Patron Asia Limited in consideration of its services in connection with the above acquisition. The new shares rank pari passu with the existing shares in all respects.
- (4) On 21 June 2004, 70,000,000 new shares of HK\$0.002 each at an issue price of HK\$0.31 per share, representing a discount of approximately 9.62% to the closing market price of the Company's shares on 7 June 2004, were issued by way of top-up placing to independent investors. The proceeds were used for the development of the Group's existing comic publication and related business. These new shares were issued under the general mandate granted to the directors by a resolution passed at the Company's special general meeting held on 6 April 2004 and rank pari passu with the existing shares in all respects.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 28. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 April 2003	176,480	51,286	(232,987)	(5,221)
Issue of shares	65,203	–	–	65,203
Share issue expenses	(2,356)	–	–	(2,356)
Net loss for the year	–	–	(3,919)	(3,919)
At 31 March 2004	239,327	51,286	(236,906)	53,707
Issue of shares	52,635	–	–	52,635
Share issue expenses	(2,326)	–	–	(2,326)
Share premium reduction	(286,300)	286,300	–	–
Eliminated against accumulated losses	–	(236,906)	236,906	–
Net loss for the year	–	–	(2,332)	(2,332)
At 31 March 2005	3,336	100,680	(2,332)	101,684

Pursuant to a special resolution passed at the annual general meeting of the Company on 10 August 2004, the Company reduced its share premium by an amount of HK\$286,300,000 in accordance with the provisions of Section 46 of the Bermuda Companies Act 1981 and transferred the same amount to the contributed surplus account of the Company. On the same date, the Company applied an amount of HK\$236,906,000 from the contributed surplus account to set off against accumulated losses.

The special reserve of the Group represents the difference between the nominal amount of the shares of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the shares issued for the acquisition.

The contributed surplus of the Company represents the difference between the underlying consolidated net assets of Global Food Culture Group Limited and its subsidiaries and the nominal value of the Company's shares which were issued under a group reorganisation in 1997.

In addition to accumulated profits, under the Bermuda Companies Act, the contributed surplus account of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 28. RESERVES (Continued)

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 March 2005 were as follows:

	2005 HK\$'000
Contributed surplus	100,680
Accumulated losses	(2,332)
	<hr/>
	98,348

There was no reserve available for distribution at 31 March 2004.

## 29. CONVERTIBLE NOTES

Convertible notes (the "Notes") of the Group and the Company were issued on 19 October 2004 upon completion of the agreement for the sale and purchase of 49% equity interests in JDH dated 17 August 2004. The Notes are convertible into the shares of the Company at a price that will equal to the higher of (a) HK\$0.5 (subject to adjustments); and (b) the average closing price per share as quoted on the Stock Exchange over the 10 consecutive trading days immediately preceding the date on which conversion takes place.

The Notes bear interest on the outstanding principal from the date of issue to the date of redemption or conversion at a rate of 2% per annum payable in arrears semi-annually.

Unless converted by the noteholder or prepaid by the Company in accordance with the terms and conditions of the Notes, the Company will repay an amount in cash without premium representing the outstanding principal, accrued and unpaid interest.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 30. ACQUISITION OF SUBSIDIARIES

On 22 April 2004, the Group acquired 51% of the issued share capital of JDH and its subsidiaries (collectively the "JDH Group") for a consideration of approximately HK\$54,338,000. The amount of goodwill arising as a result of the acquisition was HK\$41,025,000.

	2005 HK\$'000
Net assets acquired:	
Property, plant and equipment	17,065
Intangible assets	3,364
Inventories	18,693
Trade debtors	18,549
Loan receivable	100
Amount due from a related company	25
Deposits and prepayments	1,627
Bank balances and cash	2,537
Tax recoverable	532
Trade creditors	(9,221)
Other creditors and accrued charges	(11,154)
Tax payable	(108)
Bank loans	(15,905)
Minority interests	(12,791)
	<hr/> 13,313
Goodwill	41,025
	<hr/>
Total consideration	54,338
	<hr/> <hr/>
Satisfied by:	
Shares allotted	30,874
Cash	23,464
	<hr/> 54,338
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration	23,464
Bank balances and cash acquired	(2,537)
	<hr/>
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	20,927
	<hr/> <hr/>

The subsidiaries acquired during the year contributed HK\$101,947,000 to the Group's turnover and HK\$25,036,000 to the Group's profit from operations.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 31. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of 100% equity interest of Pacific Glory Limited ("Pacific Glory") and Best Spread Limited ("Best Spread"). Pacific Glory and its subsidiaries and Best Spread were principally engaged in operating restaurants.

On 20 November 2003, the Group disposed of 100% equity interest of Global Mission Holdings Limited ("Global Mission"). Global Mission and its subsidiaries were principally engaged in operating restaurants.

The net (assets) liabilities of Pacific Glory and Best Spread and Global Mission at the date of disposal were as follows:

	2005 HK\$'000	2004 HK\$'000
Net (assets) liabilities disposed of:		
Property, plant and equipment	(2,109)	(81,710)
Inventories	(285)	(6,232)
Trade debtors	(51)	(1,860)
Other debtors	(54)	(1,189)
Deposits and prepayments	(852)	(16,481)
Pledged bank deposits	–	(1,025)
Bank balances and cash	(2,825)	(1,208)
Trade creditors	972	12,145
Other creditors and accrued charges	642	13,548
Other loan	–	72,400
Tax payable	–	294
Obligations under finance leases	–	215
Bank overdraft	–	9,250
Bank borrowings	–	13,930
Minority interest	–	13,946
	(4,562)	26,023
Gain on disposal	(547)	(26,023)
Total consideration	5,109	–
Satisfied by:		
Cash	5,000	–
Deferred consideration (included in other debtors)	109	–
	5,109	–
Net cash inflow arising on disposal:		
Cash consideration	5,000	–
Bank balances and cash disposed of	(2,825)	(1,208)
Bank overdraft disposed of	–	9,250
	2,175	8,042

The subsidiaries disposed of during the year contributed HK\$7,759,000 (2004: HK\$154,321,000) to the Group's turnover and had a loss from operations of HK\$69,000 (2004: loss of HK\$2,408,000).





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 32. MAJOR NON-CASH TRANSACTIONS

During the year, 83,442,718 new shares were issued at an issue price of HK\$0.37 per share amounting to HK\$30,874,000, as part of the consideration for the acquisition of 51% interest in JDH and 1,000,000 new shares were issued at an issue price of HK\$0.37 per share amounting to HK\$370,000, in settlement of the advisory fee payable to Oriental Patron in consideration of its services in connection with the above acquisition.

During the year, convertible notes of HK\$65,333,000 were issued as part of the consideration for the acquisition of the remaining 49% interest in JDH.

During prior year, 1,500,000 new shares were issued at an issue price of HK\$0.33 per share amounting to HK\$495,000, in settlement of the advisory fee payable to Oriental Patron in consideration of its services as one of the joint financial advisors to the Company in connection with the rights on 15 January 2004.

## 33. OPERATING LEASES

### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	223	708
In the second to fifth year inclusive	161	–
	<u>384</u>	<u>708</u>

Operating lease payments in current year represent rentals payable by the Group for its staff quarters and office premises in Shenzhen, the PRC. Leases are mainly negotiated for an average term of one to two years.

Operating lease payments in prior year represented rentals payable by the Group for certain of its office and restaurant properties. Leases were negotiated for an average term of one to two years.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 34. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed at a special general meeting of the Company held on 7 October 2002 for the primary purpose of providing incentives to directors and eligible employees. The Scheme will expire on 6 October 2012. Under the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, suppliers, customers, shareholders advisers or consultants and joint venture partners or business alliances of the Company or any of its subsidiaries to subscribe for shares in the Company.

The maximum number of securities to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme must not in aggregate exceed 30% of the relevant share capital of the Company in issue from time to time.

At 31 March 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 61,799,998 (2004: 12,799,998), representing 8.7% (2004: 2.29%) of the shares of the Company in issue at that date. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the Scheme. Options lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating the 10% limit. The Company has sought approval from its shareholders on 10 August 2004 for refreshing the 10% limit under the Scheme. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholder or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per each grant of options. Options may be exercised from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company and will not be less than the highest of the closing price of the shares on the Stock Exchange on the date of grant, the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 34. SHARE OPTION SCHEME (Continued)

The following table discloses details of the Company's share options held by the Company's directors and the Group's consultants and movements in such holdings during the year.

	Option type	Date of grant	Exercisable period	Exercise price	Number of share options			At 31 March 2005
					At 1 April 2003 and 31 March 2004	Granted during the year	Lapsed during the year (Note)	
Directors	2003	27 March 2003	28 March 2003 to 27 March 2006	0.267	11,199,998	–	–	11,199,998
	2004	2 April 2004	22 April 2004 to 21 April 2007	0.363	–	9,300,000	(6,000,000)	3,300,000
	2005	6 January 2005	21 January 2005 to 20 January 2008	0.370	–	5,800,000	–	5,800,000
					<u>11,199,998</u>	<u>15,100,000</u>	<u>(6,000,000)</u>	<u>20,299,998</u>
Employees	2003	27 March 2003	28 March 2003 to 27 March 2006	0.267	1,600,000	–	–	1,600,000
	2004	2 April 2004	22 April 2004 to 21 April 2007	0.363	–	600,000	–	600,000
	2005	6 January 2005	21 January 2005 to 20 January 2008	0.370	–	300,000	–	300,000
					<u>1,600,000</u>	<u>900,000</u>	<u>–</u>	<u>2,500,000</u>
Consultants, advisors, customers, shareholders and business associate	2004	2 April 2004	22 April 2004 to 21 April 2007	0.363	–	13,000,000	–	13,000,000
	2005	6 January 2005	21 January 2005 to 20 January 2008	0.370	–	26,000,000	–	26,000,000
					<u>–</u>	<u>39,000,000</u>	<u>–</u>	<u>39,000,000</u>
					<u>12,799,998</u>	<u>55,000,000</u>	<u>(6,000,000)</u>	<u>61,799,998</u>

Notes: Share options were lapsed upon resignation of these directors.

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 options are exercised, and no charge is recognised in the income statement in respect of the value of options granted. 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. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

## 35. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	Notes	2005 HK\$'000	2004 HK\$'000
Interest expenses to related companies	(a)	–	252
Payment of comics script fee and bonus to a shareholder	(b)	5,693	–
Interest expenses on convertible notes to directors	(c)	56	–
Interest expense on convertible note to a shareholder	(c)	257	–

Notes:

- (a) In prior years, amounts totalling HK\$7,000,000 were advanced by JDP, a company in which Mr. Wong had a beneficial interest. The loan was guaranteed by Mr. Wong, bore interest at the best lending rate plus 1.5% per annum and was repayable on 30 June 2005. During prior year, the principal amount of HK\$7,000,000 together with the interest of HK\$252,000 were repaid to JDP. JDP became a subsidiary of the Company on 22 April 2004.
- (b) During the year, the Group paid comics script fee and bonus to Mr. Wong, in the capacity as chief comic creative writer in pursuance with relevant service agreements signed with the Group.
- (c) During the year, the Group paid interest on convertible notes to directors and their associates and a shareholder and his associates. The interest is charged at 2% on the principal amount of the convertible notes.

## 36. POST BALANCE SHEET EVENT

On 30 April 2005, a restaurant of the Group, Forever-Green Taiwanese Restaurant, ceased its operations. The Group has since then completed discontinuation of its restaurant operations.

