

## FINANCIAL RESULTS

For the year ended 31 March 2006, the Group's consolidated net loss attributable to shareholders decreased by 2% to approximately HK\$159,357,000 as compared to that of last year. The loss per share for the year was HK4.34 cents (2005: HK4.84 cents). The analysis of the income statement is as follows:

(i) *Turnover*

The Group's overall turnover for the year ended 31 March 2006 decreased approximately by HK\$5,133,000 to approximately HK\$46,221,000 over last year, of which approximately HK\$41,731,000, HK\$412,000 and HK\$4,078,000 (2005: HK\$47,010,000, HK\$237,000 and HK\$4,107,000) were attributable to our business of comics publication, Chinese information infrastructure and rental income from investment properties respectively.

(ii) *Administrative expenses*

The increase in administrative expenses of the Group for the year was mainly due to a legal claim of HK\$7,500,000 in relation to a guarantee for printing charges which has been accounted for in the financial statement under review.

(iii) *Finance costs*

The finance costs of approximately HK\$3,893,000 for the year was mainly the result of interest expenses related to the secured borrowing of HK\$70,000,000 obtained by the Group in June 2005 for the balance payment of the asset purchase agreement and licence agreement which have been terminated in February 2006.

(iv) *Allowances for amounts due from associates and amount due from a jointly controlled entity*

Due to the continuous losses incurred by the associates, additional allowances for amounts due from associates was made in the amount of approximately HK\$33,704,000 (2005: HK\$5,591,000) for the year. The continuous losses incurred by a jointly controlled entity in the PRC resulting in an allowance for amount due from a jointly controlled entity of approximately HK\$2,234,000 (2005: Nil) accounted for the year.

(v) *Development cost of I.T. Projects*

The amortization of development cost amounted to approximately HK\$17,105,000 (2005: HK\$23,818,000) and the balance of development cost of approximately HK\$15,850,000 was fully provided in the income statement. In addition, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$4,362,000 (2005: HK\$8,819,000).

At 31 March 2006, the Group's net asset value was HK\$210,812,000 and net asset value per weighted average number of 3,670,446,000 shares of the Company was approximately HK\$0.06 (2005: HK\$0.09).

## CONVERTIBLE BONDS

On 2 June 2005, the Company entered into a placing agreement with a placing agent, pursuant to the placing agreement, the placing agent conditionally agreed to place on a best effort basis the convertible bonds of the Company up to an aggregate principal amount of HK\$300,000,000. The convertible bonds will carry a right to convert into new shares of the company at the conversion price of, subject to adjustment, HK\$0.6 per share. Subsequent to the alternative financing obtained from a director and an independent third party in June 2005, the Company decided to terminate the placing of convertible bonds by mutual agreement with the placing agent with effect from 29 July 2005.

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK\$36,000,000 convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to require the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK\$36,000,000 to be issued by the Company. The conversion price of Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively "Convertible Bonds") is HK\$0.1 per new ordinary share of HK\$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds are expected to be approximately HK\$34,800,000 and will be used as general working capital of the Group. The placing of the Tranche 1 Convertible Bonds is expected to be completed on or before 31 July 2006.

## WARRANTS

On 6 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 the Company at an initial subscription price of HK\$0.165 per shares during the two years period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4 July 2003.

During the year up to the expiry date of the 2005 Warrants, 247,380,000 warrants had been exercised and the Company received the net proceeds of approximately HK\$40,817,000 from the exercise of the warrants.

On 18 August 2005, the Company entered into a placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants ("2007 Warrants") conferring rights to subscribe up to HK\$113,520,000 in cash for sales of the Company at an initial subscription price of HK\$0.172 per share during the two years period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of 2007 Warrants was completed on 28 September 2005. The net issue proceeds of the placing of about HK\$24,145,000 will be mainly used for general working capital of the Group.

During the year, no registered holders of 2007 Warrants exercised their rights to subscribe for the Company's shares.

### **PURCHASE OF ASSETS AND LICENCE OF TECHNOLOGY**

On 27 May 2005, the Group and Transmeta Corporation signed the Asset Purchase Agreement and the Licence Agreement (“the Agreements”), whereby the Group should (i) purchase the Acquired Crusoe Assets and Technology for US\$5,000,000; and (ii) be licensed to manufacture and sell the Efficeon Microprocessor and to use the Manufacturing Tools (for manufacture and sale of the Crusoe Microprocessor) for US\$10,000,000 plus on-going royalty. The upfront payments of US\$15,000,000 were made in June 2005, and held in the escrow account of an independent financial institution. On 27 October 2005, the subject major transaction of the Company was approved and passed as an ordinary resolution by the shareholders of the Company at the special general meeting of the Company. In early February 2006, the Group was advised that the necessary U.S. technology export control approvals could not be obtained for the Agreements within the time frame necessary to satisfy the required commercial requirements. As a result, the Group agreed with Transmeta Corporation to mutually terminate the conditional Agreements and a Mutual Termination Agreement was entered into on 7 February 2006. After termination, the upfront payments had been refunded by the escrow agent on 14 February 2006.

### **ISSUE OF SHARES OF CULTURE.COM TECHNOLOGY LIMITED**

On 30 August 2005, Culture.com Technology Limited (“Culture.com Technology”) entered into a conditional subscription agreement with REXCAPITAL International Holdings Limited (“REXCAPITAL”) in relation to the subscription by REXCAPITAL of 100 new shares of HK\$1.00 each in the share capital of Culture.com Technology (“Subscription Shares”) at a consideration of the lower of the sum of HK\$73,500,000 or 10% of the valuation value of such new shares in Culture.com Technology to be satisfied by REXCAPITAL issuing the appropriate number of new ordinary shares in the share capital of REXCAPITAL in favour of Culture.com Technology. As the parties were unable to appoint a suitable professional consultant to prepare the valuation report, the valuation value had not yet been determined and the valuation report had not yet been issued, the conditions to the subscription agreement therefore could not be fulfilled or waived on or before the extended Long Stop Date of 15 February 2006. Therefore, the subscription agreement had lapsed and ceased to have any further effect from 16 February 2006.

### **PLEDGE OF ASSETS**

A short term borrowing of HK\$70,000,000 secured by legal charge over the leasehold land and building and investment properties of the Group has been discharged on 28 February 2006.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had bank and deposits with other financial institutions balances in aggregate of approximately HK\$19,536,000 and held-for-trading investments of approximately HK\$24,552,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 31 March 2006, the Group had a net current asset of approximately HK\$72,999,000 (31 March 2005: HK\$135,192,000) and a current ratio of 4.77 (31 March 2005: 6.56). The Group's total liabilities as at 31 March 2006 amounted to approximately HK\$22,798,000 and represented approximately 10.81% (31 March 2005: 9.32%) to shareholders' equity.

In view of the above, the Directors believe that the Group will have sufficient liquidity to finance its daily operation, and the net proceeds from the placing of convertible bonds and the exercise of 2007 Warrants in the future would further strengthen the financial position of the Group.

## EMPLOYMENT AND REMUNERATION POLICES

As at 31 March 2006, the Group had a total of 139 employees of which 61 are based in Hong Kong, 38 in Macau and 40 in the PRC. Total staff costs incurred during the year amounted to approximately HK\$29,531,000 (2005: HK\$28,076,000). Remuneration packages are maintained at competitive level and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.