2006-2007 ANNUAL REPORT

CULTURECOM

CULTURECOM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 343)

CULTURECOM HOLDINGS LIMITED

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cheung Wai Tung *(Chairman)*
Mr. Chu Bong Foo *(Vice-Chairman)*
Mr. Henry Chang Manayan
Mr. Wan Xiaolin
Mr. Tai Cheong Sao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Man To
Mr. Joseph Lee Chennault
Mr. Wang Tiao Chun
Mr. Chung Billy

COMPANY SECRETARY

Mr. Cheung Wai Keung, Cecil

QUALIFIED ACCOUNTANT

Mr. Cheung Wai Keung, Cecil

AUDIT COMMITTEE

Mr. Lai Man To
Mr. Joseph Lee Chennault
Mr. Wang Tiao Chun
Mr. Chung Billy

REMUNERATION COMMITTEE

Mr. Lai Man To
Mr. Wan Xiaolin
Mr. Wang Tiao Chun
Mr. Chung Billy

PRINCIPAL BANKERS

Bank of China (Hong Kong)
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank

SOLICITORS

Michael Li & Co.
Appleby Hunter Bailhache

AUDITORS

Grant Thornton

PUBLIC RELATION

PR Concepts Company Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE

Culturecom Centre
47 Hung To Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

COMPANY WEBSITE

www.culturecom.com.hk

STOCK CODE

343

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31 March 2007 amounted to HK$46,642,000 (2006: HK$46,221,000) of which HK$41,143,000 (2006: HK$41,731,000) was attributable to the business of comics publication of the Group, HK$410,000 (2006: HK$412,000) was attributable to the Chinese information infrastructure of the Group and HK$5,089,000 (2006: HK$4,078,000) was attributable to the rental income from investment properties of the Group. Loss for the year attributable to equity holders, taking into account taxation, was HK$33,934,000 (2006: HK$159,357,000). The loss per share was HK0.86 cents (2006: HK4.34 cents).

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2007.

BUSINESS REVIEW

Since 2006, the Group has strived to reconstruct our technological assets and businesses and has continuously sought for any projects with higher profit margin so as to create greater shareholders' values. During the financial year, remarkable fruits were attained from the Group's business reconstruction. As regard to our non-core operations, all-round cost control was put into place and appropriate adjustments were made in accordance with our corporate strategies. As for our core operations, circumspect operating strategies were pursued for enhancing shareholders' returns.

DEVELOPMENT OF TECHNOLOGY BUSINESS

Over the last year, the Group has redirected our entire technology development path through consolidating the resource allocation ratio of our core products and non-core products on an unprecedented and determined basis. The projects under development are based on the time required for yielding returns. Projects without any definite shareholders' returns will be recognized as non-core items by the Group. The corporate practice of non-core assets, including sales, will be handed over to the cooperative partners for follow-up actions.

The Group has enthusiastically approached the relevant corporations, institutions and universities for exploring any potential opportunities to cooperate in the horizon of Chinese Character Generating Engine and the related technologies. Encouraging technological breakthroughs were made for the editable animated comics system developed by Mr. Chu Bong Foo. The Group has been looking for suitable cooperative partners for the commercialization of the system through energetic and cautious strategies.

COMICS

During the financial year, our comics business, including local comics and overseas licensing, grew stably. However, turnover from Japanese comics business dropped by 5.5% over last year's figure to approximately HK$28,313,000 during the year. This was attributable to the fact that our imported Japanese comics business was impacted as comics book-letting stores and parallel goods became more and more common. In the realm of the development of our inter-media comics business, licensed movies, ancillary online games and mobile games have gradually proceeded to completion, and were launched into the market. The Group is now vigorously exploring each and every opportunity to cooperate with the relevant corporations for developing licensed business of animation and comics in the Mainland. Meanwhile, the Group is also seeking for opportunities of cooperating with the local government in order to further flourish the business of animation and comics in the Mainland. While mitigating our risk exposures, the Group will generate greater revenue contribution from our comics business. The Group believes that given the multimedia market is increasingly mature, Culturecom is anticipated to register higher income growth in its multimedia comics business.

RESOURCES BUSINESS

In recent years, as the technology business over the world is fiercely competitive, the Group's technology business failed to catch up greater shareholders' returns. The comics business is similarly limited to stable growth. Hence, the management of the Group expects to identify possible opportunities of developing resources projects to generate enduring stable returns for our shareholders by expanding into a wider diversity of business scopes.

PROSPECTS

Looking ahead, the Culturecom Group will adhere itself to a growing philosophy of prudence. Leveraging on our existing resources available to the Group, we will endeavour to open up more cooperative opportunities for realizing economies of scale. We will also extend into potential business segments so as to deliver greater shareholders' values. The Group is confident of securing a share in the market by capitalizing on our unique strengths.

APPRECIATION

I would like to dedicate sincere gratitude to the Board of Directors, our management and all our staff for their devoted efforts over the year and to all our customers, suppliers, business partners and our shareholders for their enthusiastic support to the Group.

Cheung Wai Tung
Chairman

Hong Kong, 24 July 2007

FINANCIAL RESULTS

For the year ended 31 March 2007, the Group's overall turnover was slightly increased approximately by 0.9% to approximately HK$46,642,000 over last year, of which approximately HK$41,143,000, HK$410,000 and HK$5,089,000 (2006: HK$41,731,000, HK$412,000 and HK$4,078,000) were attributable to our business of comics publication, Chinese information infrastructure and rental income from investment properties respectively.

The Group's consolidated net loss attributable to equity holders of the Company was significantly decreased approximately by 78.7% to approximately HK$33,934,000 as compare to that of the last year. The loss per share for the year was HK0.86 cents (2006: HK4.34 cents). The improvement in the financial results was mainly resulted from the adjustments made to the development plans of our IT core technologies and the related assets investments during the year. As a result, no further research and development expenditure was incurred for the technology projects and certain non-core investments in subsidiaries and associates were disposed during the year. In addition, the effective cost controls implemented by the management resulted in the decrease in total administrative expenses for the year by approximately 36.9%. Due to the continuous losses incurred by the associates, additional allowances for amounts due from an associate were made in the amount of approximately HK$10,196,000 for the year. However, due to the adoption of the new HKFRSs "Share-based Payment", the Group recognised the expenses of approximately HK$11,749,000 in relation to share options granted to employees and consultants of the Group during the year.

At 31 March 2007, the Group's net asset value was HK$224,967,000 and net asset value per weighted average number of 3,942,563,000 shares of the Company was approximately HK$0.06 (2006: HK$0.06).

CONVERTIBLE BONDS

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 might at its option, further 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$0.10 per new share of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds were approximately HK$34,978,000 and was intended to be used as general working capital of the Group. The placing of the Tranche 1 Convertible Bonds was completed on 10 August 2006. As at 31 March 2007, all registered holders of Tranche 1 Convertible Bonds exercised their rights to convert for the Company's shares.

On 24 April 2007, the Company has exercised the option to call for subscription of the Tranche 2 Convertible Bonds. Upon exercising of option, holders of Tranche 1 Convertible Bonds are obliged to subscribe for the Tranche 2 Convertible Bonds at the coversion price of HK$0.10 per share. The issue of the Tranche 2 Convertible Bonds was completed on 11 May 2007. The net proceeds are approximately HK$35,500,000 and it is currently intended to be used as general working capital of the Group.

PLACING OF SHARES

On 14 June 2007, the Company and a placing agent entered into the placing agreement pursuant to which the Company has conditionally agreed to place, through the placing agent on a best efforts basis, a maximum of 800,000,000 placing shares to independent investors at a price of HK$0.22 per placing share. The placing of 800,000,000 placing shares was completed on 10 July 2007. The net proceeds from the placing of approximately HK$172,000,000 are intended to be used for possible investment in energy related business and/or other possible diversified investments.

ACQUISITION

(1) On 19 March 2007, the Group entered into a conditional sale and purchase agreement with an independent third party in relation to the acquisition involving the issue of consideration shares for the PRC media design and advertising business with total consideration of HK$55,450,000. Due to the disagreement of some directors, a board meeting was then duly held with all directors either present in person or attended by telephone conference in order to re-consider the acquisition on 30 March 2007. After due and careful consideration of the directors, the acquisition was not approved. On 2 April 2007, the Group entered into a deed of cancellation to cancel the agreement with a compensation of HK$2,000,000.

(2) On 11 May 2007, the Group entered into a non-binding memorandum of understanding with an independent third party regarding a possible investment of not less than 51% equity interests in a company which is principally engaged in energy sector related businesses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group had bank and deposits with financial institutions balances in aggregate of approximately HK$37,154,000 and held-for-trading investments of approximately HK$29,877,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 31 March 2007, the Group had a net current asset of approximately HK$80,927,000 (31 March 2006: HK$72,999,000) and a current ratio of 5.81 (31 March 2006: 4.77). The Group's total liabilities as at 31 March 2007 amounted to approximately HK$22,425,000 and represented approximately 9.97% (31 March 2006: 10.81%) 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 issue of Convertible Bonds, placing of placing shares and the exercise of warrants in the future would further strengthen the financial position of the Group.

EMPLOYMENT AND REMUNERATION POLICIES

As at 31 March 2007, the Group had a total of 86 employees of which 54 are based in Hong Kong, 30 in Macau and 2 in the PRC. Total staff costs incurred during the year amounted to approximately HK$27,858,000 (2006: HK$29,531,000). 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.

The Directors present their annual report and the audited financial statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal associates and subsidiaries are set out in notes 18 and 39 to the financial statements respectively.

SUBSIDIARIES AND ASSOCIATES

Details of the Group's associates and of the Company's subsidiaries at 31 March 2007 are set out in notes 18 and 39 to the financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover during the year attributable to the Group's five largest customers accounted for 83% of the Group's turnover, of which 53.8% was attributable to the largest customer.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 83.1% of the Group's total purchases, of which 55.9% was attributable to the largest supplier.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 27.

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 97 and 98.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$64,000 on the acquisitions of property, plant and equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL, WARRANTS, CONVERTIBLE BONDS AND SHARE OPTIONS

Details of movements during the year in the share capital and details of warrants, convertible bonds and the share option scheme of the Company are set out in notes 28, 30, 31 and 32 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company has no reserves available for distribution to shareholders.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Cheung Wai Tung *(Chairman)*
Mr. Chu Bong Foo *(Vice-Chairman)*
Mr. Henry Chang Manayan
Mr. Wan Xiaolin
Mr. Tai Cheong Sao (appointed on 18 June 2007)

Independent Non-Executive Directors:

Mr. Lai Man To
Mr. Joseph Lee Chennault
Mr. Wang Tiao Chun
Mr. Chung Billy (appointed on 18 June 2007)

In accordance with Clauses 101, 110(A) and 190(v) of the Company's Bye-Laws, Messrs. Chu Bong Foo, Henry Chang Manayan, Chung Billy and Tai Cheong Sao will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received the annual confirmation of independence from each of the Independent Non-Executive Directors as required under Rule 3.13 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considered all Independent Non-Executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheung Wai Tung, aged 49, was appointed as the Chairman and Executive Director of the Company in December 1998 and is responsible for the corporate strategic planning and business development of the Group. Mr. Cheung holds a Bachelor of Arts degree in Accounts and Finance from Shanghai Maritime College, Shanghai, the PRC. Prior to joining the Group, he was representative and deputy chief executive officer of COSCO Group in Singapore and Hong Kong respectively.

Mr. Chu Bong Foo, aged 69, was appointed as Vice-Chairman and Executive Director of the Company in May 1999 and is responsible for the design and development of Chinese information infrastructure of the Group. Mr. Chu is the inventor of Changjie Index System and has been engaging in the development of Chinese character generating technology over 20 years.

Mr. Henry Chang Manayan, aged 51, was appointed as Executive Director of the Company in September 1999. He was the Mayor of Milpitas, California, the USA and is the first Mayor of Asian ancestry ever elected in the City of Milpitas. He is also an attorney and business owner of a management consultancy firm. He was educated at Syracuse University, Oxford University (Great Britain), Yale-in-China College, Golden Gate University Graduate College of Banking and Finance and the University of Santa Clara School of Law, where he received his Juris Doctor. Mr. Manayan is the president and general counsel of Transpacific Capital Corporation, a finance and investment company. He also served as a board director, officer and legal counsel to several companies and organisation.

Mr. Wan Xiaolin, aged 49, joined the Group as General Manager in January 2000 and is responsible for the group administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. Prior to joining the Group, he was general manager of China Merchants Transportation Group for finance and accounting division. Mr. Wan was appointed as Executive Director of the Company in July 2002.

Mr. Tai Cheong Sao, aged 63, was appointed as Executive Director of the Company in June 2007. He was a teacher for several years and then joined the Hong Kong Government where he spent the next twenty-six years in a law enforcement department. After leaving the public service, Mr. Tai joined a well-established estate development company as a General Manager and was responsible for its business development and office administration. Currently Mr. Tai is an Executive Direcor of ViaGOLD Capital Limited (a company listed on the Australian Stock Exchange Limited). He had previously worked as Controller of Human Resources and Administration of the Group for the period from December 1998 to May 2001.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Independent Non-Executive Directors

Mr. Lai Man To, aged 77, was appointed as an Independent Non-Executive Director of the Company in March 1999. Mr. Lai is a mechanical engineering specialist and has over 30 years of experience in finance and securities industry. Before his retirement in 1998, he has held various senior positions including senior manager of Sun Hung Kai Securities and chief executive officer of Cheerful (Holdings) Limited.

Mr. Wang Tiao Chun, aged 51, was appointed as an Independent Non-Executive Director of the Company in August 1999. Mr. Wang is currently holding various senior management positions in various companies in Taiwan.

Mr. Joseph Lee Chennault, aged 63, was appointed as an Independent Non-Executive Director of the Company in September 2004. Mr. Chennault holds a Bachelor of Arts in Economics from University of San Francisco and MBA from Golden Gate University. He is a member of California Society of Certified Public Accountants and has over 30 years of experience in accounting and auditing.

Mr. Chung Billy, aged 32, was appointed as an Independent Non-Executive Director of the Company in June 2007. He holds a Bachelor of Arts degree in Accounting from the University of Waterloo and a MBA from the University of Toronto in Canada. As a member of the Canadian Institute of Chartered Accountants, he has over eight years of extensive experience in the fields of accounting, consulting, and investment banking. Currently, he is a Senior Project Director at China Treasure (Greater China) Investments Limited, a company listed on the Main Board (Stock Code: 810).

Senior Management

Mr. Kwan Kin Chung, aged 38, was appointed as Acting Chief Executive Officer of the Company in April 2007. He held the position as Vice President of the Group from 1998 to 2002. Mr. Kwan has extensive experience in businesses restructuring and corporate investment. He holds a Bachelor of Arts in Economics from Zhongshan University, Guangzhou, the PRC. Currently, he is the Managing Director of Bio Cassava Technology Holdings Limited, a company listed on the GEM Board (Stock Code: 8129).

Dr. Chen Tzyh Trong, aged 49, joined the Company as Vice President and Executive Assistant to Chairman in May 2003. Dr. Chen graduated from the National Taiwan University with LL.B degree and earned his Ph.D. degree in Law from the University of London. He is well experienced in the fields of legal affairs, market development, and corporate management, with previous senior executive appointments in various companies. Dr. Chen is a respected commentator and writer for national economic and legal affairs. Dr. Chen had served as Secretary General for the Association of Taiwan Business Association in Hong Kong and Director for the Association of Chinese Traders and he is currently a counselor for Taipei City Government.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Senior Management (Continued)

Mr. Lai Hoi Fai, aged 52, joined the Group as Vice President, Business Strategy and Development in March 2003. Mr. Lai is a Telecom and IT business development professional, with the bulk of his over 20 years of professional experience gained from leading multinational corporations including Digital Equipment Corporation, National Semiconductor, Mitel, and Sonera where he had served as senior regional executive for the Asia Pacific market. He holds a Bachelor degree in Electrical Engineering from McGill University (Canada) and MBA from the University of Hong Kong.

Mr. Chen Man Lung, aged 41, joined the Group as a Vice President in December 1998 and is responsible for publishing business and corporate development of the Group. Mr. Chen graduated with an Honour Diploma in sociology from Hong Kong Baptist College in 1989 and a Master degree of arts in Chinese studies from The Hong Kong University of Science and Technology in 1994. Mr. Chen has worked as an economist in a consultant firm and a bank and has over 8 years of experience in investment industry. Currently, he is the Executive Director of Bio Cassava Technology Holdings Limited, a company listed on the GEM Board (Stock Code: 8129).

Mr. Tang U Fai, aged 34, joined the Group as Technical Officer in May 2001 and is responsible for the design and development of V-Dragon CPU and COL-eTown project. Mr. Tang is one of Mr. Chu Bong Foo's dedicated disciples.

Mr. Lee Kin Chung, Michael, aged 52, joined the Group as Vice President in June 1999 and is responsible for development and marketing of the Group's publishing business. Mr. Lee has over 20 years of experience in publication field and had involved in publication operation of various newspaper and magazine in Hong Kong.

Mr. Cheung Wai Keung, Cecil, aged 39, joined the Group in December 1998. He is the Group's Financial Controller and Company Secretary. He is a fellow member of the Chartered Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Wong Shu Pui, aged 40, joined the Group as General Counsel in November 2000 and is responsible for all the legal matters of the Group.

SHARE OPTION SCHEMES

The Company has terminated its share option scheme adopted on 15 June 1993 (the "1993 Scheme") and adopted a new share option scheme (the "2002 Scheme") on its 2002 Annual General Meeting held on 21 August 2002.

Subsequent to the termination of the 1993 Scheme, no further share options can be granted thereunder but in all other respects, the provisions of the 1993 Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith. The number of shares available for issue under the 1993 Scheme and 2002 Scheme as at the date of the Annual Report is 31,965,000 and 998,000,000 respectively, totalling 1,029,965,000 shares which in aggregate representing approximately 19.46% of the issued share capital of the Company as of that date.

Particulars of the Company's share option schemes are set out in note 32 to the financial statements.

Details of the movement of the share options granted to the Directors and employees of the Company under the 1993 Scheme during the year are as follows:

		Date of Grant	Number of share options At 1 April 2006	Lapsed during the year	Granted/ Exercised/ Cancelled during the year	At 31 March 2007	Exercise price per share	Exercisable Period
							HK$	
(a) Directors								
Mr. Cheung Wai Tung		3 March 2000	4,565,000	–	–	4,565,000	1.680	3 March 2000 to 2 March 2010
Mr. Chu Bong Foo	(i)	27 August 1999	10,000,000	–	–	10,000,000	0.264	27 August 1999 to 26 August 2009
	(ii)	3 March 2000	2,000,000	–	–	2,000,000	1.680	3 March 2000 to 2 March 2010
Mr. Henry Chang Manayan	(i)	27 August 1999	1,000,000	–	–	1,000,000	0.264	27 August 1999 to 26 August 2009
	(ii)	3 March 2000	500,000	–	–	500,000	1.680	3 March 2000 to 2 March 2010
Mr. Wan Xiaolin		3 March 2000	1,000,000	–	–	1,000,000	1.680	3 March 2000 to 2 March 2010
(b) Employees		3 March 2000	25,035,000	(7,370,000)	–	17,665,000	1.680	3 March 2000 to 2 March 2010

SHARE OPTION SCHEMES (Continued)

Details of the movement of the share options granted under the 2002 Scheme during the year are as follows:

			Number of share options							Price of the Company's shares (note)	
		Date of Grant	At 1 April 2006	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	At 31 March 2007	Exercise price per share	Exercisable Period	At immediately preceding the grant date of share options	At immediately preceding the exercise date of share options
								HK$		HK$	HK$
(a) Directors											
Mr. Cheung Wai Tung		19 December 2003	4,000,000	–	–	–	4,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
Mr. Henry Chang Manayan		19 December 2003	1,000,000	–	–	–	1,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
Mr. Wan Xiaolin		19 December 2003	3,000,000	–	–	–	3,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
(b) Employees	(i)	19 December 2003	37,700,000	–	–	(6,300,000)	31,400,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	(ii)	24 March 2005	71,000,000	–	–	(3,500,000)	67,500,000	0.295	24 March 2005 to 23 March 2015	N/A	N/A
	(iii)	7 July 2006	–	46,600,000	(12,000,000)	–	34,600,000	0.101	7 July 2006 to 6 July 2016	0.099	0.089
(c) Others	(i)	19 December 2003	20,000,000	–	–	–	20,000,000	0.265	19 December 2003 to 18 December 2013	N/A	N/A
	(ii)	24 March 2005	202,000,000	–	–	–	202,000,000	0.295	24 March 2005 to 23 March 2015	N/A	N/A
	(iii)	3 October 2005	30,000,000	–	–	–	30,000,000	0.212	3 October 2005 to 2 October 2015	N/A	N/A
	(iv)	7 July 2006	–	296,400,000	(1,000,000)	–	295,400,000	0.101	7 July 2006 to 6 July 2016	0.099	0.070

The fair value of the share options granted during the year is set out in note 32 to the financial statements.

Note: The price of the Company's share disclosed as at immediately preceding the date of the grant of the share options is The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's share disclosed as at immediately preceding the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their respective exercise dates within the disclosure line.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option holdings disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors

As at 31 March 2007, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Interests in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	160,180,000	6.89%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 *(note)*	
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000	0.05%
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000	0.01%

Note: 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

All interests stated above represent long positions.

DISCLOSURE OF INTERESTS (Continued)

(a) Interests of the Directors (Continued)

Interests in share options of the Company

Name of Director		Capacity	Nature of interests	Number of share options	Exercise price per share	Exercisable period	Approximate percentage of issued share capital
					HK$		
Mr. Cheung Wai Tung	(i)	Beneficial owner	Personal interest	4,565,000 *(note 1)*	1.680	3 March 2000 to 2 March 2010	0.21%
	(ii)	Beneficial owner	Personal interest	4,000,000 *(note 1)*	0.265	19 December 2003 to 18 December 2013	
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest	10,000,000 *(note 2)*	0.264	27 August 1999 to 26 August 2009	0.29%
	(ii)	Beneficial owner	Personal interest	2,000,000 *(note 2)*	1.680	3 March 2000 to 2 March 2010	
Mr. Henry Chang Manayan	(i)	Beneficial owner	Personal interest	1,000,000 *(note 3)*	0.264	27 August 1999 to 26 August 2009	0.06%
	(ii)	Beneficial owner	Personal interest	500,000 *(note 3)*	1.680	3 March 2000 to 2 March 2010	
	(iii)	Beneficial owner	Personal interest	1,000,000 *(note 3)*	0.265	19 December 2003 to 18 December 2013	
Mr. Wan Xiaolin	(i)	Beneficial owner	Personal interest	1,000,000 *(note 4)*	1.680	3 March 2000 to 2 March 2010	0.10%
	(ii)	Beneficial owner	Personal interest	3,000,000 *(note 4)*	0.265	19 December 2003 to 18 December 2013	

DISCLOSURE OF INTERESTS (Continued)

(a) Interests of the Directors (Continued)

Notes:

1. Pursuant to the 1993 Scheme, Mr. Cheung Wai Tung was granted share options by the Company on 3 March 2000 to subscribe for 4,565,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. On 19 December 2003, Mr. Cheung was further granted share options by the Company to subscribe for 4,000,000 shares at the exercise price of HK$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.

2. Pursuant to the 1993 Scheme, Mr. Chu Bong Foo was granted share options by the Company (i) on 27 August 1999 to subscribe for 10,000,000 shares at the exercise price of HK$0.264 per share for the exercisable period from 27 August 1999 to 26 August 2009; and (ii) on 3 March 2000 to subscribe for 2,000,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010.

3. Pursuant to the 1993 Scheme, Mr. Henry Chang Manayan was granted share options by the Company (i) on 27 August 1999 to subscribe for 3,000,000 shares at the exercise price of HK$0.264 per share for the exercisable period from 27 August 1999 to 26 August 2009; and (ii) on 3 March 2000 to subscribe for 500,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. Mr. Henry Chang Manayan exercised his share options to subscribe for 1,000,000 shares at the exercise price of HK$0.264 on 18 February 2000. On 19 December 2003, he was further granted share options by the Company to subscribe for 1,000,000 shares at the exercise price of HK$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme. Mr. Henry Cheng Manayan then exercised his share options to subscribe for 1,000,000 shares at the exercise price of HK$0.264 on 6 April 2004.

4. Pursuant to the 1993 Scheme, Mr. Wan Xiaolin was granted share options by the Company on 3 March 2000 to subscribe for 1,000,000 shares at the exercise price of HK$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. On 19 December 2003, Mr. Wan was further granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.

All interests stated above represent long positions.

Save as disclosed above, as at 31 March 2007, none of the Directors nor chief executive of the Company had interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS (Continued)

(b) Interests of Substantial Shareholder

As at 31 March 2007, so far as is known to any Director or chief executive of the Company, the following person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO:

Interests in the shares of the Company

Name	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	160,180,000	6.89%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 *(note)*	

Note: 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

All interests stated above represent long positions.

Interests in the shares options of the Company

Name	Capacity	Nature of interest	Number of share options	Approximate percentage of issued share capital
Mr. Chu Bong Foo	Beneficial owner	Personal interest	12,000,000	0.29%

The interest stated above represents long position.

Save as disclosed above, as at 31 March 2007, the Directors and the chief executive of the Company were not aware of any person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors nor their respective associates had any business which competed or was likely to compete, either directly or indirectly, with the business of the Group at the end of the year or at any time during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the listed securities in the Company during the year ended 31 March 2007.

AUDIT COMMITTEE

The Audit Committee, with written terms of reference in line with the code provisions set out in the Code on Corporate Governance Practices (the "Code") as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, currently comprises four independent non-executive Directors, namely Mr. Lai Man To, Mr. Chung Billy, Mr. Wang Tiao Chun and Mr. Joseph Lee Chennault. The Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2007 except for the following deviations:

Code Provision A.1.3

Under code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. In two non-regular board meetings of the Company held on 19 March 2007, not all directors had been given notices of these two board meetings, as some directors were at the relevant time outside the territory of Hong Kong. Subsequently, a board meeting was held on 30 March 2007, in this case notice of this board meeting was received by all directors and this board meeting was attended by all directors, to re-consider the matters resolved in the two said board meetings held on 19 March 2007. As such, the Company considers that any deviation from code provision A.1.3 has been rectified.

Code Provision A.2.1

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. During the year, the Company did not have any officer with the title of "CEO" but instead the duties of a CEO are performed by Mr. Cheung Wai Tung, the Chairman of the Company in the same capacity as the CEO of the Company. The Board believed that vesting the roles of both Chairman and CEO in the same person provided the Group with strong and consistent leadership and allowed for more effective planning and execution of long term business strategies. However with increasing workload of the Chairman, the Company resolved to appoint Mr. Kwan Kin Chung as the Acting CEO of the Company in April 2007.

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors of the Company are not appointed for a specific term. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Code Provision E.1.2

Under the code provision E.1.2 the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Cheung Wai Tung was unable to attend the annual general meeting of the Company held on 24 August 2006 as he was on business trip for other important business engagement. However, an Executive Director, present at the annual general meeting who then took the chair of that meeting in accordance with the Bye-Laws of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the year ended 31 March 2007.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 40 to the financial statements

AUDITORS

On 17 May 2007, Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company and Messrs. Grant Thornton were appointed as auditors of the Company to fill the casual vacancy so arising. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Grant Thornton as auditors of the Company.

On behalf of the Board

Cheung Wai Tung
Chairman

Hong Kong, 24 July 2007

INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code as set out in Appendix 14 to the Listing Rules. During the year, the Company has complied with the Code except code provisions A.1.3, A.2.1, A.4.1 and E.1.2.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the year ended 31 March 2007.

BOARD OF DIRECTORS

During the year, the Board of Directors comprised the executive Chairman, the executive Vice-Chairman, two Executive Directors and three Independent Non-Executive Directors. The Board of Directors is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board of Directors meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board of Directors has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of Directors at the board meetings held during the year is as follows:

Directors	Attendance/Number of Meetings
Executive Directors	
Mr. Cheung Wai Tung *(Chairman)*	16/16
Mr. Chu Bong Foo *(Vice-Chairman)*	6/16
Mr. Wan Xiaolin	16/16
Mr. Henry Chang Manayan	4/16
Independent Non-Executive Directors	
Mr. Lai Man To	7/16
Mr. Joseph Lee Chennault	5/16
Mr. Wang Tiao Chun	4/16

BOARD OF DIRECTORS (Continued)

The Company has received the annual confirmation of independence from each of the Independent Non-Executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all Independent Non-Executive Directors to be independent.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference are aligned with the code provisions set out in the Code.

The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

During the year, the Audit Committee comprised three Independent Non-Executive Directors. The Audit Committee was chaired by Mr. Lai Man To.

During the year, the Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

During the year, the members and attendance of the meetings of the Audit Committee are as follows:

Directors	Attendance/Number of Meetings
Mr. Lai Man To	2/2
Mr. Joseph Lee Chennault	1/2
Mr. Wang Tiao Chun	1/2

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. During the year, the Company did not have any officer with the title of "CEO" but instead the duties of a CEO are performed by Mr. Cheung Wai Tung, the Chairman of the Company in the same capacity as the CEO of the Company. The Board believed that vesting the roles of both Chairman and CEO in the same person provides the Group with strong and consistent leadership and allowed for more effective planning and execution of long term business strategies.

TERMS OF NON-EXECUTIVE DIRECTORS

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current Independent Non-Executive Directors of the Company are not appointed for a specific term. However, all Directors (including Executive and Non-Executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

REMUNERATION COMMITTEE

The Remuneration Committee of the Group has been established in November 2005 with written terms of reference in line with the Code. The Remuneration Committee will meet as and when necessary or as requested by any Committee member to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive Directors and senior management. The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation.

During the year, the Remuneration Committee comprised two Independent Non-Executive Directors and one Executive Director. The Remuneration Committee was chaired by Mr. Lai Man To.

During the year, no meeting was held by the Remuneration Committee.

Details of emoluments of the Directors from the Group for the year are as disclosed in note 10 to the financial statements.

NOMINATION OF DIRECTORS

According to the Bye-Laws of the Company, the Board of Directors has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board of Directors. The nomination should be taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 March 2007, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Responsibilities and Remuneration

During the year, the audit fee for the Group amounted to approximately HK$700,000.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Report of the Auditors on pages 25 and 26.

Internal Control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control which includes financial, operational and compliance controls and risk management functions for safeguarding the interests of the shareholders of the Company.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

To the members of Culturecom Holdings Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Culturecom Holdings Limited (the "Company") set out on pages 27 to 96, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Hong Kong, 24 July 2007

Consolidated Income Statement

for the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	6	**46,642**	46,221
Cost of sales		**(33,448)**	(32,018)
Gross profit		**13,194**	14,203
Other income		**3,196**	4,037
Administrative expenses		**(55,096)**	(87,249)
Amortisation of development costs		**–**	(17,105)
Research and development expenditure		**–**	(4,362)
Allowances for trade and other debtors		**–**	(6,842)
Increase/(Decrease) in fair value of held-for-trading investments		**6,675**	(404)
Share of loss of associates	18	**(1,662)**	(8,240)
Share of loss of a jointly controlled entity	19	**–**	(740)
Gain on disposal of an associate	36	**891**	–
Gain on disposals of subsidiaries	35	**1,765**	290
Valuation surplus on investment properties	16	**12,533**	2,736
Finance costs	8	**(187)**	(3,893)
Allowances for amounts due from associates	18	**(10,196)**	(33,704)
Allowance for amounts due from a jointly controlled entity		**–**	(2,234)
Impairment loss of development costs		**–**	(15,850)
Impairment loss of property, plant and equipment	14	**(2,827)**	–
Loss before income tax	9	**(31,714)**	(159,357)
Income tax expense	11	**(2,220)**	–
Loss for the year attributable to equity holders of the Company		**(33,934)**	(159,357)
Loss per share attributable to equity holders of the Company during the year – basic	12	**HK0.86 cents**	HK4.34 cents
Dividends		**–**	–

Consolidated Balance Sheet

as at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	14	**13,230**	31,305
Prepaid lease payments	15	**24,724**	25,059
Investment properties	16	**80,026**	57,836
Development costs	17	**–**	–
Interests in associates	18	**8,248**	3,931
Amounts due from associates	18	**22,030**	21,739
Interest in a jointly controlled entity	19	**–**	–
Intangible assets – club memberships	20	**1,385**	1,385
		149,643	141,255
Current assets			
Inventories	21	**139**	143
Trade debtors	22	**5,382**	6,568
Prepaid lease payments	15	**335**	335
Other debtors, deposits and prepayments		**19,929**	10,227
Amounts due from fellow subsidiaries of an associate	23	**200**	–
Amounts due from associates	18	**4,642**	30,898
Tax recoverable		**91**	96
Held-for-trading investments	24	**29,877**	24,552
Bank balances and deposits with financial institutions	25	**37,154**	19,536
		97,749	92,355
Current liabilities			
Trade creditors	26	**6,020**	7,363
Other creditors and accrued charges		**9,375**	11,732
Amounts due to fellow subsidiaries of an associate	23	**1,233**	33
Obligations under finance leases – due within one year	27	**32**	48
Tax payable		**162**	180
		16,822	19,356
Net current assets		**80,927**	72,999
Total assets less current liabilities		**230,570**	214,254

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	28	**410,698**	373,398
Reserves		**(185,731)**	(162,586)
Total equity		**224,967**	210,812
Non-current liabilities			
Obligations under finance leases – due after one year	27	**71**	103
Deferred tax liabilities	33	**5,532**	3,339
		5,603	3,442
		230,570	214,254

Cheung Wai Tung
Director

Wan Xiaolin
Director

Balance Sheet

as at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment in subsidiaries	39	**80,709**	80,709
Amounts due from an associate	18	**2,800**	3,970
		83,509	84,679
Current assets			
Amounts due from a subsidiary	39	**136,870**	171,607
Other debtors, deposits and prepayments		**6,005**	5
Bank balances	25	**279**	8,798
		143,154	180,410
Current liabilities			
Other creditors and accrued charges		**1,006**	650
Net current assets		**142,148**	179,760
Net assets		**225,657**	264,439
EQUITY			
Share capital	28	**410,698**	373,398
Reserves	29	**(185,041)**	(108,959)
Total equity		**225,657**	264,439

Cheung Wai Tung
Director

Wan Xiaolin
Director

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
Cash flows from operating activities		
Loss before income tax	**(31,714)**	(159,357)
Adjustments for:		
Allowances for trade and other debtors	**–**	6,842
Allowances for amounts due from associates	**10,196**	33,704
Allowance for amounts due from a jointly controlled entity	**–**	2,234
Amortisation of prepaid lease payments	**335**	335
Amortisation of development costs	**–**	17,105
Depreciation of property, plant and equipment	**5,518**	6,213
Impairment loss of property, plant and equipment	**2,827**	–
Dividend income	**(34)**	(85)
Interest expense	**187**	3,893
Interest income	**(781)**	(922)
Loss on disposals of property, plant and equipment	**–**	60
Write-down of inventories	**1,512**	3,786
Loss/(Gain) on disposals of held-for-trading investments	**1,549**	(273)
(Increase)/Decrease in fair value of held-for-trading investments	**(6,675)**	404
Share of loss of associates	**1,662**	8,240
Share of loss of a jointly controlled entity	**–**	740
Gain on disposal of an associate	**(891)**	–
Gain on disposals of subsidiaries	**(1,765)**	(290)
Valuation surplus on investment properties	**(12,533)**	(2,736)
Impairment loss of development costs	**–**	15,850
Recognition of equity-settled share-based payments	**11,749**	1,249
Operating loss before changes in working capital	**(18,858)**	(63,008)
Increase in inventories	**(1,547)**	(334)
Decrease in trade debtors	**1,186**	2,374
(Increase)/Decrease in other debtors, deposits and prepayments	**(10,625)**	11,994
(Increase)/Decrease in amounts due from fellow subsidiaries of an associate	**(200)**	1,938
Decrease in trade creditors	**(1,343)**	(2,282)
Decrease in other creditors and accrued charges	**(633)**	(1,963)
Increase/(Decrease) in amounts due to fellow subsidiaries of an associate	**1,200**	(434)
Increase in held-for-trading investments	**(316)**	(1,647)
Dividend received from held-for-trading investments	**34**	85

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash used in operations		**(31,102)**	(53,277)
Interest received		**781**	922
Hong Kong profits tax paid		**(40)**	(34)
Net cash used in operating activities		**(30,361)**	(52,389)
Cash flows from investing activities			
Repayments/(Advances) from/(to) associates		**15,770**	(10,545)
Advances to a jointly controlled entity		**–**	(694)
Purchases of property, plant and equipment		**(64)**	(310)
Proceeds from disposal of property, plant and equipment		**–**	52
Proceeds from disposals of subsidiaries	35	**1,144**	30
Proceeds from disposal of an associate	36	**891**	–
Investment in an associate		**(5,862)**	–
Net cash generated from/(used in) investing activities		**11,879**	(11,467)
Cash flows from financing activities			
Proceeds from issue of shares		**1,313**	48,193
Net proceeds from issue of convertible bonds		**34,978**	–
Net proceeds from issue of warrants		**–**	24,145
Interest paid		**(187)**	(3,893)
Repayments of obligations under finance leases		**(48)**	(57)
Share issue expenses		**(3)**	(7)
Net cash generated from financing activities		**36,053**	68,381
Net increase in cash and cash equivalents		**17,571**	4,525
Cash and cash equivalents at 1 April		**19,536**	15,194
Effect of foreign exchange rate changes		**47**	(183)
Cash and cash equivalents at 31 March		**37,154**	19,536
Analysis of the balances of cash and cash equivalents			
Bank balances and deposits with financial institutions		**37,154**	19,536

Consolidated Statement of Changes in Equity

for the year ended 31 March 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contribution surplus HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	346,160	696,804	171,671	15,306	446	(130)	–	(933,485)	296,772
Exchange differences on translation of overseas operations recognised directly in equity	–	–	–	–	–	(183)	–	–	(183)
Loss for the year	–	–	–	–	–	–	–	(159,357)	(159,357)
Total recognised expenses during the year	–	–	–	–	–	(183)	–	(159,357)	(159,540)
Issue of warrants	–	–	–	24,145	–	–	–	–	24,145
Exercise of warrants	24,738	16,080	–	–	–	–	–	–	40,818
Transfer from other reserve to share premium due to exercise of warrants	–	13,678	–	(13,678)	–	–	–	–	–
Exercise of share options	2,500	4,875	–	–	–	–	–	–	7,375
Share issue expenses	–	(7)	–	–	–	–	–	–	(7)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	1,249	–	1,249
	27,238	34,626	–	10,467	–	–	1,249	–	73,580

Consolidated Statement of Changes in Equity

for the year ended 31 March 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contribution surplus HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 March 2006 and 1 April 2006	373,398	731,430	171,671	25,773	446	(313)	1,249	(1,092,842)	210,812
Exchange differences on translation of overseas operations recognised directly in equity	–	–	–	–	–	52	–	–	52
Loss for the year	–	–	–	–	–	–	–	(33,934)	(33,934)
Total recognised expenses during the year	–	–	–	–	–	52	–	(33,934)	(33,882)
Recognition of convertible bonds	–	(1,022)	–	4,184	–	–	–	–	3,162
Conversion of convertible bonds	36,000	–	–	(4,184)	–	–	–	–	31,816
Exercise of share options	1,300	13	–	–	–	–	–	–	1,313
Share issue expenses	–	(3)	–	–	–	–	–	–	(3)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	11,749	–	11,749
	37,300	(1,012)	–	–	–	–	11,749	–	48,037
At 31 March 2007	410,698	730,418	171,671	25,773	446	(261)	12,998	(1,126,776)	224,967

The contribution surplus 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.

Other reserve includes the share of other reserve of an associate amounting to HK$1,500,000 (2006: HK$1,500,000), and net proceeds from issue of warrants less transfer to share premium due to exercise of warrants.

1. GENERAL

Culturecom Holdings Limited ("the Company") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (the "Group") include publishing, Chinese information infrastructure and investment holding.

The financial statements on pages 27 to 96 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 March 2007 were approved for issue by the board of directors on 24 July 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 From 1 April 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures. The specific transitional provisions contained in some of these new or amended HKFRSs have been considered. The adoption of these standards did not result in any changes to the amounts or disclosures in these financial statements.

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

2.2 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

Amendment to HKAS 1	"Presentation of Financial Statements" – Capital Disclosures[1]
HKFRS 7	"Financial Instruments: Disclosures"[1]
HKFRS 8	"Operating Segments"[7]
HK(IFRIC) Interpretation 8	"Scope of HKFRS 2"[2]
HK(IFRIC) Interpretation 9	"Reassessment of Embedded Derivatives"[3]
HK(IFRIC) Interpretation 10	"Interim Financial Reporting and Impairment"[4]
HK(IFRIC) Interpretation 11	"Group and Treasury Share Transactions"[5]
HK(IFRIC) Interpretation 12	"Service Concession Arrangements"[6]

[1] Effective for accounting periods beginning on or after 1 January 2007.
[2] Effective for accounting periods beginning on or after 1 May 2006.
[3] Effective for accounting periods beginning on or after 1 June 2006.
[4] Effective for accounting periods beginning on or after 1 November 2006.
[5] Effective for accounting periods beginning on or after 1 March 2007.
[6] Effective for accounting periods beginning on or after 1 January 2008.
[7] Effective for accounting periods beginning on or after 1 January 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties and certain financial assets and financial liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation

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

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.5 Jointly controlled entity

A jointly controlled entity is a joint venture under a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is contractually agreed sharing of control over an economic activity and exists only when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the venturers.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Jointly controlled entity (Continued)

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of rebate and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividend is recognised when the right to receive payment is established.

Rental income is recognised in equal installments over the periods covered by the lease term.

3.8 Borrowing costs

All borrowing costs are expensed as incurred.

3.9 Intangible assets and research and development activities

Intangible assets – club memberships

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in Note 3.12.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Intangible assets and research and development activities (Continued)

Research and development costs

Costs associated with research activities are expensed in the income statement as they occur.

An internally-generated intangible asset arising for development expenditure is recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits through internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion; and

(iv) the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

3.10 Property, plant and equipment

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

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

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Property, plant and equipment (Continued)

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3.11 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

3.12 Impairment of assets

Property, plant and equipment, interests in subsidiaries, associates and jointly controlled entities and intangible assets are subject to impairment testing.

Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Impairment of assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to Note 3.10 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 **Leases** (Continued)

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(iv) *Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets are classified into two categories:

– Held-for-trading investments
– loans and receivables

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Held-for-trading investments

Held-for-trading investments include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Held-for-trading investments are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Financial assets (Continued)

(i) Held-for-trading investments (Continued)

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Financial assets (Continued)

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) *Loans and receivables*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised costs has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effect interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the increase can be related objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of reversal is recognised in profit or loss of the period in which the reversal occurs.

3.15 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.19 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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 contribute 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Retirement benefit costs and short term employee benefits (Continued)

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.20 Equity-settled share-based payment transactions

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and in exchange for goods or services.

Share options granted to employee of the Group

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in income statement/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Equity-settled share-based payment transactions (Continued)

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. That fair value is measured at the date the Group obtains the goods or the counterparty renders service.

3.21 Financial liabilities

The Group's financial liabilities include convertible bonds, trade creditors, other creditors and accruals and amounts due to fellow subsidiaries of an associate.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Convertible bonds

Convertible bonds issued by the Company that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as other reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Financial liabilities (Continued)

Convertible bonds (Continued)

The liability component is subsequently carried at amortised cost using the effective interest rate method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the other reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits.

Trade creditors, other creditors and accruals and amounts due to fellow subsidiaries of an associate

Trade creditors, other creditors and accruals and amounts due to fellow subsidiaries of an associate are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.22 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude corporate assets, held-for-trading investment and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of property, plant and equipment

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Estimate fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than the estimated.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Deferred tax

As at 31 March 2007, deferred tax assets of HK$3,845,000 in relation to unused tax losses have been recognised in the consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a reversal of the deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal takes place.

Fair value of embedded conversion option of convertible bonds and share options

There are a number of assumptions used in estimating the fair value of embedded conversion option of convertible bonds and share options, details of which are set out in Notes 31 and 32 to the financial statements.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade debtors, other debtors, held-for-trading investments, amounts due from related parties, bank balances and deposits with financial institutions, trade creditors, other creditors and accrued charges, finance lease liabilities and amounts due to fellow subsidiaries of an associate. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's bank balances and deposits with financial institutions are deposited with banks and financial institutions of high credit rating and the Group has limited exposure to any single financial institution.

Except for the amounts due from associates, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to price risk on equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts.

6. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents the amount received and receivable for goods sold by the Group, less returns and allowances and rental income and is analysed as follows:

	2007	2006
	HK$'000	HK$'000
Sales of goods	**41,553**	42,143
Rental income	**5,089**	4,078
	46,642	46,221

7. SEGMENT INFORMATION

Primary reporting format – Business segments

The Group is currently organised into three main business segments:

Publishing	–	publishing of comics and related business
Chinese information infrastructure	–	sales of Chinese operating system, processor, eTextbook and application software
Investment	–	rental income from investment properties

7. SEGMENT INFORMATION (Continued)

Primary reporting format – Business segments (Continued)

Income statement for the year ended 31 March 2007

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	41,143	410	5,089	46,642
Segment results	1,183	(14,714)	9,062	(4,469)
Unallocated expenses				(17,856)
Share of loss of associates				(1,662)
Gain on disposal of an associate				891
Gain on disposals of subsidiaries				1,765
Allowances for amount due from associates				(10,196)
Finance costs				(187)
Loss before income tax				(31,714)
Income tax expense				(2,220)
Loss for the year				(33,934)

7. SEGMENT INFORMATION (Continued)

Primary reporting format – Business segments (Continued)

Balance sheet at 31 March 2007

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Segment assets	16,768	12,112	81,667	110,547
Interests in associates				8,248
Amounts due from associates				26,672
Unallocated corporate assets				101,925
Consolidated total assets				247,392
Liabilities				
Segment liabilities	11,695	1,891	6,831	20,417
Unallocated corporate liabilities				2,008
Consolidated total liabilities				22,425

7. SEGMENT INFORMATION (Continued)

Primary reporting format – Business segments (Continued)

Other information for the year ended 31 March 2007

	Publishing	Chinese information infrastructure	Investment	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Purchases of property, plant and equipment	34	30	–	–	64
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation	726	2,825	270	1,697	5,518
Impairment loss of property, plant and equipment	–	2,766	–	61	2,827

7. SEGMENT INFORMATION (Continued)

Primary reporting format – Business segments (Continued)

Income statement for the year ended 31 March 2006

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	41,731	412	4,078	46,221
Segment results	5,192	(73,026)	6,612	(61,222)
Unallocated expenses				(49,614)
Share of loss of associates				(8,240)
Share of loss of a jointly controlled entity				(740)
Finance costs				(3,893)
Gain on disposals of subsidiaries				290
Allowances for amounts due from associates				(33,704)
Allowance for amounts due from a jointly controlled entity				(2,234)
Loss before income tax				(159,357)
Income tax expense				–
Loss for the year				(159,357)

7. SEGMENT INFORMATION (Continued)

Primary reporting format – Business segments (Continued)

Balance sheet at 31 March 2006

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Segment assets	19,288	21,886	58,097	99,271
Interests in associates				3,931
Amounts due from associates				52,637
Unallocated corporate assets				77,771
Consolidated total assets				233,610
Liabilities				
Segment liabilities	9,370	5,412	646	15,428
Unallocated corporate liabilities				7,370
Consolidated total liabilities				22,798

7. SEGMENT INFORMATION (Continued)

Primary reporting format – Business segments (Continued)

Other information for the year ended 31 March 2006

	Publishing HK$'000	Chinese information infrastructure HK$'000	Investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Purchases of property, plant and equipment	4	176	–	288	468
Amortisation of development costs	–	16,595	–	510	17,105
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation	764	3,263	–	2,186	6,213
Allowances for trade and other debtors	344	283	450	5,765	6,842
Impairment loss of development costs	–	15,850	–	–	15,850

Secondary reporting format – Geographical segments

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

The following table provides an analysis of the Group's revenue by location of markets, irrespective of the origin of the goods/services:

	Revenue	
	2007 **HK$'000**	2006 HK$'000
Hong Kong	**46,330**	45,959
PRC	**–**	262
Macau	**312**	–
	46,642	46,221

7. SEGMENT INFORMATION (Continued)

Secondary reporting format – Geographical segments (Continued)

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

	Segment assets		Purchase of property, plant and equipment	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**235,949**	230,873	**34**	105
PRC	**900**	831	**–**	75
Macau	**10,543**	1,906	**30**	288
	247,392	233,610	**64**	468

8. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest charges on:		
Finance leases	**9**	12
Other borrowings wholly repayable within five years	**–**	3,881
Convertible bonds (all issued and converted into share capital during the year)	**178**	–
	187	3,893

9. LOSS BEFORE INCOME TAX

	2007 HK$'000	2006 HK$'000
Loss before income tax has been arrived at after charging/(crediting):		
Staff costs		
Directors' emoluments (Note 10)	**2,564**	5,067
Other staff costs:		
– Retirement benefits schemes contributions	**375**	539
– Share option expense	**11,749**	1,249
– Salaries and other benefits (Note a)	**13,170**	22,676
	27,858	29,531
Auditors' remuneration	**700**	900
Write-down of inventories	**1,512**	3,786
Amortisation of prepaid lease payments	**335**	335
Depreciation of property, plant and equipment		
– Owned assets	**5,469**	6,172
– Assets held under finance leases	**49**	41
	5,518	6,213
Cost of inventories recognised as expenses	**29,801**	31,816
Compensation costs (Note b)	**2,000**	7,500
Loss on disposals of property, plant and equipment	**–**	60
Operating lease rentals in respect of rented premises	**1,713**	1,763
Loss/(Gain) on disposals of held-for-trading investments	**1,549**	(273)
Property rental income under operating leases, net of direct outgoings of HK$193,000 (2006: HK$202,000)	**(4,896)**	(3,876)
Interest income	**(781)**	(922)
Dividend income	**(34)**	(85)

Note a: The balance included salaries of HK$Nil (2006: HK$1,060,000) paid to the employees engaged in research and development activities. The amount was classified as research and development expenditure in the income statement.

Note b: Compensation costs amounting to HK$2,000,000 represented the damages payable to the vendor of the cancelled sale and purchase agreement entered into by the Group during the year. (Note 40(a))

10. DIRECTORS' REMUNERATION AND SENIOR EMOLUMENTS

(a) Emoluments of directors and independent non-executive directors

	Fees HK$'000	Salaries and other benefits HK$'000	Share option HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2007					
Executive directors					
Cheung Wai Tung	120	1,065	–	12	1,197
Chu Bong Foo	–	119	–	–	119
Henry Chang Manayan	–	–	–	–	–
Wan Xiaolin	120	636	–	12	768
Independent non-executive directors					
Lai Man To	120	120	–	–	240
Wang Tiao Chun	–	–	–	–	–
Joseph Lee Chennault	120	120	–	–	240
Total for 2007	480	2,060	–	24	2,564

10. DIRECTORS' REMUNERATION AND SENIOR EMOLUMENTS (Continued)

(a) Emoluments of directors and independent non-executive directors (Continued)

	Fees	Salaries and other benefits	Share option	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006					
Executive directors					
Cheung Wai Tung	120	1,050	–	12	1,182
Chu Bong Foo	120	990	–	–	1,110
Cheung Kam Shing, Terry (resigned on 28 December 2005)	90	828	–	9	927
Henry Chang Manayan	120	120	–	–	240
Wan Xiaolin	–	716	–	12	728
Independent non-executive directors					
Lai Man To	120	120	–	–	240
Wang Tiao Chun	400	–	–	–	400
Joseph Lee Chennault	120	120	–	–	240
Total for 2006	1,090	3,944	–	33	5,067

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.

10. DIRECTORS' REMUNERATION AND SENIOR EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest emoluments in the Group for the year included two (2006: three) directors whose emoluments are included in the disclosure in Note 10(a) above. The emoluments payable to the remaining three (2006: two) individuals during the year were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,931**	2,156
Retirement benefits scheme contributions	**36**	24
	1,967	2,180

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	3	2

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year (2006: No Hong Kong profits tax has been provided in the financial statements as the Group has no assessable profit in the prior year). The Group had no assessable profits in other jurisdiction in both years.

	2007	2006
	HK$'000	HK$'000
Current tax		
– Hong Kong	**27**	–
Deferred tax	**2,193**	–
	2,220	–

Details of the deferred tax are set out in Note 33.

Income tax expense for the year can be reconciled to the loss before income tax per the consolidated income statement as follows:

	2007	2006
	HK$'000	HK$'000
Loss before income tax	**(31,714)**	(159,357)
Income tax at the Hong Kong profits tax rate of 17.5% (2006: 17.5%)	**(5,550)**	(27,887)
Tax effect of income not taxable for tax purpose	**(4,109)**	(718)
Tax effect of unused tax losses not recognised	**1,166**	18,095
Tax effect of expenses not deductible for tax purpose	**10,713**	10,510
Total income tax expense	**2,220**	–

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the loss for the year of HK$33,934,000 (2006: HK$159,357,000) and the weighted average number of 3,942,563,000 (2006: 3,670,446,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for both years because the exercise of the Company's outstanding share options and warrants would reduce loss per share.

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$33,934,000 (2006: HK$159,357,000), a loss of HK$86,819,000 (2006: HK$109,265,000) has been dealt with in the financial statements of the Company.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Leasehold improvements	Plant and machinery	Vehicles, furniture and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 March 2005					
Cost	29,820	32,334	14,450	47,973	124,577
Accumulated depreciation	(11,880)	(29,331)	(12,656)	(34,435)	(88,302)
Net book amount	17,940	3,003	1,794	13,538	36,275
Year ended 31 March 2006					
Opening net book amount	17,940	3,003	1,794	13,538	36,275
Additions	–	–	–	468	468
Transfer from investment properties	915	–	–	–	915
Depreciation	(701)	(761)	(587)	(4,164)	(6,213)
Disposals	–	(53)	–	(59)	(112)
Disposals of subsidiaries	–	–	–	(28)	(28)
Closing net book amount	18,154	2,189	1,207	9,755	31,305
At 31 March 2006					
Cost	30,735	32,202	14,450	46,567	123,954
Accumulated depreciation	(12,581)	(30,013)	(13,243)	(36,812)	(92,649)
Net book amount	18,154	2,189	1,207	9,755	31,305
Year ended 31 March 2007					
Opening net book amount	18,154	2,189	1,207	9,755	31,305
Additions	–	35	–	29	64
Transfer to investment properties	(9,657)	–	–	–	(9,657)
Depreciation	(1,329)	(472)	(552)	(3,165)	(5,518)
Impairment	–	–	–	(2,827)	(2,827)
Disposals	–	–	–	(7)	(7)
Disposals of subsidiaries	–	–	–	(130)	(130)
Closing net book amount	7,168	1,752	655	3,655	13,230
At 31 March 2007					
Cost	21,078	32,237	14,450	46,459	114,224
Accumulated depreciation	(13,910)	(30,485)	(13,795)	(42,804)	(100,994)
Net book amount	7,168	1,752	655	3,655	13,230

14. PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

The buildings of the Group at 31 March 2007 and 2006 are situated in Hong Kong and are situated on land held under medium-term leases.

At the balance sheet date, included in vehicles, furniture and equipment are assets held under finance leases with an aggregate net book value of HK$119,000 (2006: HK$220,000).

15. PREPAID LEASE PAYMENTS – GROUP

	2007 **HK$'000**	2006 HK$'000
Analysis for reporting purposes as:		
Non-current asset	**24,724**	25,059
Current asset	**335**	335
Total (Medium-term leasehold land in Hong Kong)	**25,059**	25,394

16. INVESTMENT PROPERTIES – GROUP

	2007 **HK$'000**	2006 HK$'000
Balance at the beginning of the year	**57,836**	56,015
Transfer from/(to) property, plant and equipment	**9,657**	(915)
Valuation surplus recognised in the income statement	**12,533**	2,736
Balance at the end of the year	**80,026**	57,836

The fair value of the Group's investment properties, situated in Hong Kong and held under medium term leases, at 31 March 2007 has been arrived at on the basis of a valuation carried out by RHL Appraisal Ltd., independent qualified professional valuers not connected with the Group with appropriate qualifications and with experiences in the valuation of similar properties in the relevant locations. The valuation conformed to Hong Kong Institute of Surveyors Valuation Standards on Properties and was arrived at by reference to market evidence of transaction prices for similar properties.

16. INVESTMENT PROPERTIES – GROUP (Continued)

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

17. DEVELOPMENT COSTS – GROUP

	2007	2006
	HK$'000	HK$'000
Cost		
At 1 April and 31 March	**112,961**	112,961
Accumulated amortisation and impairment		
At 1 April	**112,961**	80,006
Amortised for the year	**–**	17,105
Impairment loss recognised	**–**	15,850
At 31 March	**112,961**	112,961
Carrying value		
At 31 March	**–**	–

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

In response to the rapid change of the computer technology environment and the termination of the purchase of assets and license of technology from United States, the Group had assessed the recoverable amounts of its development costs as negligible and already recognised impairment losses in prior years.

18. INTERESTS IN ASSOCIATES – GROUP

	2007 HK$'000	2006 HK$'000
Cost of investment in associates		
Listed in Hong Kong	**44,554**	38,574
Unlisted	**3,069**	18,101
Share of post-acquisition losses, net of dividends received	**(39,375)**	(52,744)
	8,248	3,931
Fair value of listed investments	**130,776**	6,000

Amounts due from associates are interest bearing at 7.75% (2006: 8%) and unsecured. Included in amounts due from associates of approximately HK$22,030,000 (2006: HK$21,739,000) was classified as non-current assets. In the opinion of the directors, the amount is not expected to be repaid within twelve months after the balance sheet date. The remaining balance of HK$4,642,000 (2006: HK$30,898,000) is repayable on demand.

As at 31 March 2007, amounts due from an associate to the Company was HK$2,800,000 (2006: HK$3,970,000). This balance is not expected to be repaid within twelve months after the balance sheet date.

18. INTERESTS IN ASSOCIATES – GROUP (Continued)

Particulars of the Group's principal associates as at 31 March 2007 are as follows:

Name	Form of business structure	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	British Virgin Islands ("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 agents
Bio Cassava Technology Holdings Limited ("Bio Cassava") (previously known as "Q9 Technology Holdings Limited") *(Note)*	Incorporated	Cayman Islands/ Hong Kong	Ordinary	24	Development, packing and retailing of Chinese language encryption software and development of biotech and renewable energy

Note: The shares of Bio Cassava are 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.

The financial year end date of Bio Cassava is 31 December and is not co-terminus with that of the Group.

18. INTERESTS IN ASSOCIATES – GROUP (Continued)

The financial information in respect of the Group's associates is summarised below:

	2007 **HK$'000**	2006 HK$'000
Total assets	**84,356**	81,513
Total liabilities	**(144,530)**	(167,708)
Net liabilities	**(60,174)**	(86,195)
Group's share of net assets of associates	**9,370**	3,931
Revenue	**343,900**	347,721
Loss for the year	**(46,033)**	(93,409)
Group's share of results of associates for the year	**(1,662)**	(8,240)

In May 2003, Winway H.K. Investments Limited ("Winway"), a wholly owned subsidiary of the Company, has placed 300,000,000 shares (the "Shares") of Bio Cassava with TKR Finance Limited ("TKR Finance") for safe custody and to facilitate management of such Shares. TKR Finance was subsequently liquidated. In June 2004, the Company was informed by the provisional liquidator of TKR Finance that it had security interests in the Shares. Winway sought legal advice and notified the provisional liquidator about its title in the Shares and demanded the return of the Shares. In November 2006, the Shares were returned from the provisional liquidator to Winway.

18. INTERESTS IN ASSOCIATES – GROUP (Continued)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2007 HK$'000	2006 HK$'000
Unrecognised share of losses of associates for the year	**13,670**	14,719
Accumulated unrecognised share of losses of associates	**44,699**	32,309

19. INTERESTS IN A JOINTLY CONTROLLED ENTITY – GROUP

	2007 HK$'000	2006 HK$'000
Cost of unlisted investment in a jointly controlled entity	**9,500**	9,500
Share of post-acquisition losses	**(9,500)**	(9,500)
	–	–

Details of the jointly controlled entity are as follows:

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 (北京人教)	Sino-foreign equity joint venture	PRC	51	Sales of Chinese information infrastructure products

Although the Group holds 51% of the registered capital of 北京人教 and controls 51% of the voting power in general meeting, under the shareholders' agreement, 北京人教 is jointly controlled by the Group and the other significant equity holder. As a result, 北京人教is classified as a jointly controlled entity of the Group. Share of loss of a jointly controlled entity for the year ended 31 March 2007 is nil (2006: HK$740,000).

20. INTANGIBLE ASSETS – CLUB MEMBERSHIPS – GROUP

Intangible assets are life corporate club memberships in recreational clubs.

As the club memberships are considered by management of the Group as having an indefinite useful life, the membership are not amortised until their useful lives are determined to be finite. The directors of the Company are of the opinion that there is no impairment of the club memberships after considering the prices quoted in the second hand market.

21. INVENTORIES – GROUP

These are finished goods and an amount of HK$139,000 (2006: HK$143,000) is carried at net realisable value at the balance sheet date.

22. TRADE DEBTORS – GROUP

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

	2007 **HK$'000**	2006 HK$'000
0 – 60 days	**3,975**	4,976
61 – 90 days	**333**	228
Over 90 days	**1,074**	1,364
	5,382	6,568

The directors consider that the carrying amounts of trade debtors approximate to their fair values.

23. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES OF AN ASSOCIATE – GROUP

The balances are unsecured, interest free and are repayable on demand.

24. HELD-FOR-TRADING INVESTMENTS – GROUP

	2007	2006
	HK$'000	HK$'000
Listed equity shares, at fair value:		
Hong Kong	**27,161**	23,661
Overseas	**2,716**	891
	29,877	24,552

The fair values of the above investments are determined based on the quoted market bid prices available on the relevant exchanges.

25. BANK BALANCES AND DEPOSITS WITH FINANCIAL INSTITUTIONS – GROUP AND COMPANY

Included in bank balances and deposits with financial institutions are the following amounts denominated in a currency other than the functional currency of the Group and Company placed in the banks in Hong Kong:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Japanese Yen	**1,036**	500	**–**	–

Bank balances and deposits with financial institutions are short term highly liquid investments carrying interest at an average market rate of 2.5% (2006: 2%) and are readily convertible into known amounts of cash. The balances are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

26. TRADE CREDITORS – GROUP

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

	2007	2006
	HK$'000	HK$'000
0 – 60 days	**744**	4,229
61 – 90 days	**1,653**	1,233
Over 90 days	**3,623**	1,901
	6,020	7,363

The directors consider that the carrying amounts of trade creditors approximate to their fair values.

27. OBLIGATIONS UNDER FINANCE LEASES – GROUP

	Minimum lease payments		**Present value of minimum lease payments**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**38**	57	**32**	48
In the second to fifth years inclusive	**79**	117	**71**	103
	117	174	**103**	151
Less: Future finance charges	**(14)**	(23)	**–**	–
Present value of lease obligations	**103**	151	**103**	151
Less: Amounts due within one year			**(32)**	(48)
Amounts due after one year			**71**	103

27. OBLIGATIONS UNDER FINANCE LEASES – GROUP (Continued)

The balances are secured by the lessor's charge over the leased assets.

The lease term in respect of the vehicles, furniture and equipment held under the finance lease is 5 years. For the year ended 31 March 2007, the average effective borrowing rate was 8% (2006: 8%). Interest rate is fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

28. SHARE CAPITAL

	Number of shares	**Share capital**
	'000	HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 April 2005 and 2006	**6,000,000**	600,000
Increase on 24 August 2006 *(Note (a))*	**4,000,000**	400,000
At 31 March 2007	**10,000,000**	1,000,000
Issued and fully paid:		
At 1 April 2005	**3,461,600**	346,160
Exercise of share options *(Note (b))*	**25,000**	2,500
Exercise of warrants *(Note 30)*	**247,380**	24,738
At 31 March 2006	**3,733,980**	373,398
Exercise of share options *(Note (b))*	**13,000**	1,300
Conversion of convertible bonds *(Note 31)*	**360,000**	36,000
At 31 March 2007	**4,106,980**	410,698

Note: (a) By a resolution passed on the annual general meeting held on 24 August 2006, the authorised share capital of the Company was increased to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each by the creation of a further 4,000,000,000 ordinary shares of HK$0.10 each ranking pari passu in all respect with the existing shares of the Company.

(b) During the year, the subscription rights attaching to 13,000,000 (2006: 25,000,000) share options were exercised at subscription prices of HK$0.101 (2006: HK$0.295) per share, resulting in issue of 13,000,000 (2006: 25,000,000) shares of HK$0.10 each for a total consideration of approximately HK$1,313,000 (2006: HK$7,375,000).

29. RESERVES

GROUP

Please refer to the Consolidated Statement of Changes in Equity for reserves of the Group on pages 33 and 34.

COMPANY

	Share premium HK$'000	Contribution surplus HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	696,804	262,143	13,806	446	–	(1,019,107)	(45,908)
Issue of warrants	–	–	24,145	–	–	–	24,145
Exercise of warrants	16,080	–	–	–	–	–	16,080
Gain on expiry of warrants	–	–	(128)	–	–	–	(128)
Transfer from other reserve to share premium due to exercise of warrants	13,678	–	(13,678)	–	–	–	–
Exercise of share options	4,875	–	–	–	–	–	4,875
Share issue expense	(7)	–	–	–	–	–	(7)
Recognition of equity-settled share-based payments	–	–	–	–	1,249	–	1,249
Loss for the year	–	–	–	–	–	(109,265)	(109,265)
At 31 March 2006	731,430	262,143	24,145	446	1,249	(1,128,372)	(108,959)
Recognition of convertible bonds	(1,022)	–	4,184	–	–	–	3,162
Conversion of convertible bonds	–	–	(4,184)	–	–	–	(4,184)
Exercise of share options	13	–	–	–	–	–	13
Share issue expenses	(3)	–	–	–	–	–	(3)
Recognition of equity-settled share-based payments	–	–	–	–	11,749	–	11,749
Loss for the year	–	–	–	–	–	(86,819)	(86,819)
At 31 March 2007	730,418	262,143	24,145	446	12,998	(1,215,191)	(185,041)

The contribution surplus of the Company 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.

29. RESERVES (Continued)

Other reserve of the Company represents the net proceeds from issue of warrants less transfer to share premium due to exercise of warrants.

30. WARRANTS

On 18 August 2005, the Company entered into a conditional placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants conferring rights to subscribe up to approximately HK$113,520,000 in cash for shares of HK$0.10 each in the share capital of the Company at an initial subscription price of HK$0.172 per share during the period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of warrants was completed on 28 September 2005.

The net proceeds from the placing of approximately HK$24,145,000 were used for general working capital of the Group.

During the year, no registered holders of warrants exercised their rights to subscribe for shares.

Exercise in full of all the outstanding warrants as at 31 March 2007 would, under the present share capital structure of the Company as of 31 March 2007, result in the issue of 660,000,000 additional shares of HK$0.10 each in the Company.

31. CONVERTIBLE BONDS

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 might at its option, further 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$0.10 per new ordinary share of HK$0.10 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds were approximately HK$34,978,000 and were used as general working capital of the Group.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

31. CONVERTIBLE BONDS (Continued)

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bonds. The residual amount, representing the value of equity conversion component, included in shareholders' equity in other reserve.

As at 31 March 2007, all holders of Tranche 1 Convertible Bonds for the principle amount of HK$36 million had converted their Tranche 1 Convertible Bonds into ordinary shares of the Company.

32. SHARE OPTION SCHEMES

(A) Share option scheme adopted on 15 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.

32. SHARE OPTION SCHEMES (Continued)

(A) Share option scheme adopted on 15 June 1993 ("Old Option Scheme") (Continued)

(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 21 August 2002, the shareholders of the Company resolved that the Old Option Scheme should be cancelled. However, the share options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

(B) Share option scheme adopted on 21 August 2002 ("New Option Scheme")

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 21 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 he treated in accordance with the terms under the Old Option 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.

32. SHARE OPTION SCHEMES (Continued)

(B) Share option scheme adopted on 21 August 2002 ("New Option Scheme") (Continued)

(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, however this limit might be refreshed by shareholders in a general meeting. 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.

(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 exercise 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.

32. SHARE OPTION SCHEMES (Continued)

(B) Share option scheme adopted on 21 August 2002 ("New Option Scheme") (Continued)

(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 20 August 2012.

32. SHARE OPTION SCHEMES (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 participants	Name of scheme	Date of grant	Exercisable period	Exercise price HK$	Number of share options: Outstanding at 1.4.2005	Granted during 2005/06	Exercised during 2005/06	Lapsed during 2005/06	Outstanding at 31.3.2006 and 1.4.2006	Granted during 2006/07	Exercised during 2006/07 (note)	Lapsed during 2006/07	Outstanding at 31.3.2007
Directors	Old Option Scheme	27.8.1999	27.8.1999 – 26.8.2009	0.264	11,000,000	–	–	–	11,000,000	–	–	–	11,000,000
		3.3.2000	3.3.2000 – 2.3.2010	1.680	11,065,000	–	–	(3,000,000)	8,065,000	–	–	–	8,065,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	11,000,000	–	–	(3,000,000)	8,000,000	–	–	–	8,000,000
					33,065,000	–	–	(6,000,000)	27,065,000	–	–	–	27,065,000
Employees	Old Option Scheme	3.3.2000	3.3.2000 – 2.3.2010	1.680	25,035,000	–	–	–	25,035,000	–	–	(7,370,000)	17,665,000
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	37,700,000	–	–	–	37,700,000	–	–	(6,300,000)	31,400,000
		24.3.2005	24.3.2005 – 23.3.2015	0.295	71,000,000	–	–	–	71,000,000	–	–	(3,500,000)	67,500,000
		7.7.2006	7.7.2006 – 6.7.2016	0.101	–	–	–	–	–	46,600,000	(12,000,000)	–	34,600,000
					133,735,000	–	–	–	133,735,000	46,600,000	(12,000,000)	(17,170,000)	151,165,000
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	20,000,000	–	–	–	20,000,000	–	–	–	20,000,000
		24.3.2005	24.3.2005 – 23.3.2015	0.295	227,000,000	–	(25,000,000)	–	202,000,000	–	–	–	202,000,000
		3.10.2005	3.10.2005 – 2.10.2015	0.212	–	30,000,000	–	–	30,000,000	–	–	–	30,000,000
		7.7.2006	7.7.2006 – 6.7.2016	0.101	–	–	–	–	–	296,400,000	(1,000,000)	–	295,400,000
					247,000,000	30,000,000	(25,000,000)	–	252,000,000	296,400,000	(1,000,000)	–	547,400,000
					413,800,000	30,000,000	(25,000,000)	(6,000,000)	412,800,000	343,000,000	(13,000,000)	(17,170,000)	725,630,000

32. SHARE OPTION SCHEMES (Continued)

Note: The price of the Company's shares immediately preceding the dates of the exercise of the share options at the exercise price of HK$0.101 (being the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their exercise dates) was HK$0.087.

Total consideration received during the year from directors, employees and other participants for taking up the share options granted amounted to HK$50 (2006: HK$1).

During the year, 343,000,000 options were granted on 7 July 2006. The estimated fair value of the options granted to certain employees and consultants is HK$11,749,000. As the fair value of the services provided by them could not be estimated reliably, the fair value of the services is measured by the reference to the fair value of options granted at the date the services are performed.

The fair value was calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

Weighted average share price	HK$0.101
Exercise price	HK$0.101
Expected volatility	55.81%
Expected life	2 years
Risk-free rate	4.587%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$11,749,000 (2006: HK$1,249,000) for the year ended 31 March 2007 in relation to share options granted by the Company.

33. DEFERRED TAX LIABILITIES – GROUP

Movements of the deferred tax liability and asset of the Group during the year are as follows:

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Estimated tax losses HK$'000	Total HK$'000
At 31 March 2005	1,990	5,423	(4,074)	3,339
Charge/(credit) to income statement for the year	173	478	(651)	–
At 31 March 2006	2,163	5,901	(4,725)	3,339
Charge/(credit) to income statement for the year	(880)	2,193	880	2,193
At 31 March 2007	1,283	8,094	(3,845)	5,532

At 31 March 2007, the Group has estimated unused tax losses of HK$580,577,000 (2006: HK$573,917,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$21,971,000 (2006: HK$27,000,000) of such losses. No deferred tax asset has been recognised in respect of remaining tax losses of HK$558,606,000 (2006: HK$546,917,000) due to the unpredictability of future profit streams. The estimated tax losses may be carried forward indefinitely.

34. RETIREMENT BENEFITS SCHEMES

The total cost charged to income statement of HK$399,000(2006: HK$572,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. DISPOSAL OF SUBSIDIARIES

On 15 August 2006, the Group entered into two agreements to dispose of its entire interests in the subsidiaries, 廣州市傳信電子科技有限公司 and 北京文信傳科技有限公司 which were engaged in the sales and distribution of technology products in the PRC. The disposals were completed on 30 August 2006, when controls on the above subsidiaries were passed to the acquirers.

On 20 September 2006, the Group entered into another agreement to dispose of its entire interests in a subsidiary, Best Thought International Limited which was engaged in investment holding business. The disposal was completed on 30 September 2006, when control on the above subsidiary was passed to the acquirer.

35. DISPOSAL OF SUBSIDIARIES (Continued)

The net liabilities of the above subsidiaries at the dates of disposals were as follows:

	2007 HK$'000	2006 HK$'000
Net liabilities disposed of		
Property, plant and equipment	141	28
Cash and cash equivalents	56	–
Inventories	39	–
Other debtors and prepayments	923	–
Other creditors and accrued charges	(1,724)	(288)
	(565)	(260)
Gain on disposal	1,765	290
Total consideration	1,200	30
Satisfied by cash and net cash inflow arising on disposal	1,144	30

An analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2007 HK$'000	2006 HK$'000
Cash consideration	1,200	30
Cash and cash equivalents disposed	(56)	–
Satisfied by cash and net cash inflow arising on disposal	1,144	30

The subsidiaries disposed of during the year had no contribution to the Group's turnover and contributed approximately HK$1,024,000 to the Group's loss before income tax.

36. DISPOSAL OF AN ASSOCIATE

On 1 September 2006, the Group entered into an agreement to dispose of its entire interests in an associate, Impact Lift Technology Limited which carried out investment holdings business.

An analysis of net inflow of cash and cash equivalents in respect of the disposal of an associate is as follows:

	2007 HK$'000	2006 HK$'000
Cash consideration	**950**	–
Assignment of the amounts due from the associate	**(59)**	–
Satisfied by cash and net cash inflow arising on disposal	**891**	–

37. RELATED PARTY TRANSACTIONS – GROUP

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

	Rental income received from related companies		Management fee received from related companies		Other income received from related companies		Other expense paid to related companies		Disposal of subsidiaries		Amounts due from related companies	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Associates	**511**	646	**–**	120	**145**	77	**315**	565	**–**	30	**26,672**	52,637
Fellow subsidiaries of associates	**56**	–	**–**	–	**38**	–	**96**	–	**–**	–	**200**	–
Related companies by common directors	**226**	–	**120**	–	**120**	–	**663**	–	**–**	–	**–**	–

Compensation of key management personnel represents directors' remuneration as set out in Note 10(a). The directors' remuneration is determined by the remuneration committee having regard to the performance, responsibilities and experiences of individuals and market trends.

38. OPERATING LEASE ARRANGEMENTS – GROUP

The Group as lessee

At 31 March 2007, the Group had commitments for future minimum lease payment in respect of rented premises which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**1,156**	113
In the second to fifth year inclusive	**95**	–
	1,251	113

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 are fixed for an average of two years.

The Group as lessor

Property rental income earned during the year was HK$5,089,000 (2006: HK$4,078,000).

At 31 March 2007, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	HK$'000	HK$'000
Within one year	**2,340**	1,612
In the second to fifth year inclusive	**1,433**	490
	3,773	2,102

Lease is negotiated for an average term of two years.

39. INVESTMENT IN SUBSIDIARIES – COMPANY

	2007 HK$'000	2006 HK$'000
Unlisted investments, at cost	374,246	374,246
Provision for impairment	(293,537)	(293,537)
	80,709	80,709
Amounts due from a subsidiary	1,050,238	1,014,975
Provision for impairment	(913,368)	(843,368)
	136,870	171,607

Amounts due from a subsidiary are unsecured, interest free and repayable on demand.

Particulars of the Company's principal subsidiaries as at 31 March 2007 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
Culturecom Centre Limited	Hong Kong	Ordinary HK$2	100	Property holding
Culturecom e-publication Limited	Hong Kong	Ordinary HK$2	100	Electronic publication
Culturecom Enterprises Limited	Hong Kong	Ordinary HK$2	100	Provision of management services to group companies
Culturecom Holdings (BVI) Limited	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
Culture.com Technology Limited	Hong Kong	Ordinary HK$2	100	Development of Chinese language computer processor

39. INVESTMENT IN SUBSIDIARIES – COMPANY (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 (BVI) Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
文傳漫畫設計(深圳)有限公司#	PRC	Registered HK$1,000,000	100	Comics design and production
Winway	Hong Kong	Ordinary HK$2	100	Investment holding and securities trading

* Issued capital held directly by the Company

\# A wholly owned foreign enterprise for a period of ten years commencing from 6 June 2000.

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 or assets or liabilities of the Group.

40. POST BALANCE SHEET EVENTS

(a) Cancellation of a proposed acquisition

Following the board meeting held on 30 March 2007, in which the proposed acquisition involving the issue of consideration shares for a PRC media design and advertising business (as more particularly described in the announcement dated 23 March 2007) was not approved. On 2 April 2007, the Group entered into a deed of cancellation with the vendor to cancel the sale and purchase agreement. The liquidated damages amounted to HK$2,000,000 due to the vendor was included in the Group's expenses for the year.

40. POST BALANCE SHEET EVENTS (Continued)

(b) Issue of convertible bonds

On 24 April 2007, the Company has exercised its option to the holders of the HK$36 million convertible bonds ("Tranche 1 Convertible Bonds") for the subscription of another HK$36 million convertible bonds ("Tranche 2 Convertible Bonds"). On 11 May 2007, the Tranche 2 Convertible Bonds have been issued to nine holders of the Tranche 1 Convertible Bonds. The conversion price of Tranche 2 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 2 Convertible Bonds which amounted to approximately HK$35.5 million will be used as general working capital of the Group. Details of the issue of Tranche 2 Convertible Bonds are set out in the Company's announcement dated 24 April 2007.

(c) Proposed investment in energy related businesses

On 28 May 2007, the Company announced that on 11 May 2007, the Group entered into a non-binding memorandum of understanding with an independent third party regarding a possible investment of not less than 51% equity interests in a company which is principally engaged in energy related businesses. A refundable deposit of US$1.5 million has been paid by the Group for this possible investment.

(d) Placing of new shares

On 14 June 2007, the Company and the placing agent entered into placing agreement pursuant to which the Company has conditionally agreed to place, through the placing agent on a best efforts basis, a maximum of 800,000,000 new shares ("Placing Shares") to independent investors at a price of HK$0.22 per Placing Share (the "Placing"). The Placing of the Placing Shares was completed on 10 July 2007. The net proceeds from the Placing of approximately HK$172 million are intended to be used for possible investment in energy related business of which the Company has announced on 28 May 2007 (Note (c)) and/or other possible diversified investments.

The consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements are as follows:

	Year ended 31 March				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	59,138	40,655	51,354	46,221	**46,642**
Loss before income tax	(150,937)	(72,481)	(162,931)	(159,357)	**(31,714)**
Income tax credit/(expenses)	141	–	–	–	**(2,220)**
Loss for the year	(150,796)	(72,481)	(162,931)	(159,357)	**(33,934)**
Attributable to:					
Equity holders of the Company	(149,362)	(72,467)	(162,931)	(159,357)	**(33,934)**
Minority interests	(1,434)	(14)	–	–	**–**
	(150,796)	(72,481)	(162,931)	(159,357)	**(33,934)**

Financial Summary

	As at 31 March				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Property, plant and equipment	80,795	70,989	36,275	31,305	**13,230**
Prepaid lease payments – non current portion	–	–	25,394	25,059	**24,724**
Investment properties	–	–	56,015	57,836	**80,026**
Development costs	55,506	45,557	32,955	–	**–**
Interests in associates	100,101	86,274	12,171	3,931	**8,248**
Interests in a jointly controlled entity	6,893	5,757	740	–	**–**
Investments in securities	4,585	1,385	1,385	–	**–**
Amounts due from associates – non current portion	–	–	–	21,739	**22,030**
Intangible asset – club memberships	–	–	–	1,385	**1,385**
Net current assets	114,426	180,824	135,192	72,999	**80,927**
	362,306	390,786	300,127	214,254	**230,570**
Long-term liabilities	(84)	(50)	(3,355)	(3,442)	**(5,603)**
	362,222	390,736	296,772	210,812	**224,967**
Share capital	301,400	332,352	346,160	373,398	**410,698**
Reserves	60,808	58,384	(49,388)	(162,586)	**(185,731)**
Attributable to the equity holders of the Company	362,208	390,736	296,772	210,812	**224,967**
Minority interests	14	–	–	–	**–**
	362,222	390,736	296,772	210,812	**224,967**

Note: The consolidated results for the two years ended 31 March 2003 and 2004 have not been adjusted for the New HKFRSs.