

Interim Report 2005 | 2006

CULTURECOM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Cheung Wai Tung (*Chairman*)
 Mr. Chu Bong Foo (*Vice-Chairman*)
 Mr. Cheung Kam Shing, Terry
 Mr. Henry Chang Manayan
 Mr. Wan Xiaolin

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Cheung Wai Keung, Cecil

QUALIFIED ACCOUNTANT

Mr. Cheung Wai Keung, Cecil

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

SOLICITORS

Michael Li & Co.
 Appleby Spurling Hunter

AUDITORS

Deloitte Touche Tohmatsu

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

CHAIRMAN'S STATEMENT

Business Review

Technology Business

Crusoe CPU and Efficeon CPU

In May 2005, the Group entered into two agreements with Transmeta Corporation of USA acquiring the assets and technology of Crusoe CPU, and the licensed production and sale of Efficeon 130nm CPU in China respectively. Such major transaction was passed and approved at the special general meeting held in October 2005.

After the consistent efforts of the management, the technical details of the whole acquisition has been finalized with Transmeta Corporation and has reached its final stage of implementation. The Group and Transmeta Corporation are about to sign the "Service Contract" in relation to the development and technological cooperation of Crusoe CPU, the "Contract regarding the acquisition/licensing of the Source Code of CMS (Code Morphing Software), the core-software of Crusoe CPU", and the "Exclusive General Agency Contract of Efficeon 90nm CPU in Great China" shortly. As this acquisition is the first technology export case with the highest level of technology in its class of CPU in USA, Transmeta Corporation and the Group's management have been intensively active and prudent in handling relevant procedures of technological export of USA. The Board has full confidence in this issue.

The Group has been pursuing its objectives in technological area for years. Utilizing the embedded CCGE of Chinese Character DNA invented by Mr. Chu Bong Foo as its technological core, and integrate it with processor technology, the Group has created a processor core technology business with Chinese character processing capability, popularizing and simplifying the Chinese IT industry. It proves effective as time goes by in spite of the tortuous road ahead. Nowadays, the x86 processor has emerged as the mainstream platform of the semi-conductor industry, as evidenced by the figures showing that, in 2003, x86 accounted for over 87% of the total global CPU market. The present development trend of the semi-conductor industry signifies that: (1) the proportion of x86 platform in the electronic industry is increasing; (2) various functional specific computers still call for unified format, such that the x86 platform is penetrating realms of consumer electronic, industrial control and communication products, fueled by the specific usage of computer; and (3) hand-held consumer electronics will experience rapid growth, closely networked with desktop computers and increasing importance of x86 standard to cope with the popularization of file information transfer. On the other hand, Crusoe CPU is a "non-x86 CPU technology but fully compatible with x86". It adopts a smart software structural design overcoming a number of technological barriers hindering the development of x86 CPU towards low power consumption, low price and fitness for embedded applications. This makes it more suitable than traditional x86 for applications in embedded consumer electronic, industrial control, and mobile communication products, in respect of which China becomes the world's largest and most flourishing market. The Board believes that, once the transactions were completed, the Group's embedded CCGE technology and Crusoe CPU technology, coupled with the thriving "technology for renewable photovoltaic energy", will bring about a broader market space for the Group in the embedded mobile high-end x86 application of China.

CHAIRMAN'S STATEMENT (CONTINUED)

V-Dragon CPU and CCGE

V-Dragon CPU has made considerable progress in the market of China. The Group has entered into an agreement with 北京神州龍芯集成電路設計有限公司 (BLX IC Design Co., Ltd) ("BLX") in China in respect of the licensing of CCGE technology to BLX and the embedding into BLX series of chips to promote wide application of CCGE in the market of China. The agreement also makes possible joint market promotion for "V-Dragon 3210 CPU" and its products. In addition, the Group has also entered into an agreement with 中國海信集團 (Hisense Group), with another one being discussed with 海爾集團 (Haier Group), in relation to the application of the Group's V-Dragon CPU technology in new-generation smart home-appliance and multi-media terminals.

Comic Business

Operating income for comic business has experienced a stable and healthy growth of approximately 12% in the first half of financial year 2005/2006 to reach approximately HK\$25,248,000. Growth momentum came from steady expansion of media content licensing and rising popularity of some Japanese imported comic titles.

Cross media product mix such as 3D animation, online game and TV drama series will be in place by next calendar year. The movie licensed by the Group will have global debut by the end of July 2006.

Prospects

For years, Culturecom has committed to the integration of CCGE and CPU core technology, and deployment of a truly Chinese capable CPU core solution. Existing Chinese processing requires huge amount of memory, and thus hinders the development of various character-displayed consumer electronic products towards the lighter and more portable usage. CCGE has proved its capability to break through the physical limitation of Chinese character generating system, and to enable deep integration of computer core technology and Chinese culture. We are deeply convinced that CCGE and cross-platform Crusoe Chip core technology will be the key to the future rapid take-off of the vast consumer and communication electronic product market in China. We also look forward to the wide application of the Group's CCGE technology and CPU core technology in the consumer and communication electronic product sphere.

INTERIM RESULTS

The Board of Directors (the “Directors”) of Culturecom Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2005 together with the comparative figures for the corresponding period of 2004 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTH ENDED 30 SEPTEMBER 2005

	Notes	Six months ended 30 September	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover	4	25,458	22,755
Cost of sales		(20,047)	(17,575)
Gross profit		5,411	5,180
Other revenue		3,365	2,881
Administrative expenses		(33,419)	(36,561)
Provision for claim		(7,500)	–
Unrealised loss on investments in securities		–	(38,882)
Loss arising from change in fair value of financial assets, measured at fair value through profit and loss		(3,930)	–
Amortisation of development costs		(7,291)	(5,624)
Research and development expenditures		(2,131)	(384)
Finance costs	6	(1,525)	(5)
Allowance for loans to associate		(5,400)	–
Share of results of associates		(3,195)	(3,025)
Share of results of a jointly controlled entity		(315)	(924)
Impairment loss recognised in respect of goodwill reserve		(2,490)	(3,000)
Gain on expiry of warrants		129	–
Loss before taxation	5	(58,291)	(80,344)
Taxation	7	–	–
Loss for the period		(58,291)	(80,344)
Loss per share – basic and diluted	8	HK(1.56) cents	HK(2.41) cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2005

		30 September	31 March
		2005	2005
		HK\$'000	HK\$'000
	Notes	(unaudited)	(audited and restated)
NON-CURRENT ASSETS			
Property, plant and equipment	9	34,207	36,275
Investment properties	9	56,015	56,015
Development costs	10	25,664	32,955
Interests in associates		8,976	12,171
Interests in a jointly controlled entity		424	740
Investments in securities		–	1,385
Available for sales investments		1,385	–
Prepaid lease payments		24,819	25,122
		151,490	164,663
CURRENT ASSETS			
Inventories		4,111	3,595
Trade debtors	11	10,511	9,152
Prepaid lease payments		607	607
Other debtors, deposits and prepayments		139,566	23,151
Amounts due from related companies		7,377	7,640
Amount due from a jointly controlled entity		1,722	1,540
Amounts due from associates		77,889	75,796
Taxation recoverable		70	62
Investments in securities		–	23,036
Financial assets at fair value through profit and loss		16,437	–
Bank balance and deposit with other financial institutions		27,667	15,194
		285,957	159,773

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AT 30 SEPTEMBER 2005

		30 September	31 March
		2005	2005
		HK\$'000	HK\$'000
	Notes	(unaudited)	(audited and restated)
CURRENT LIABILITIES			
Trade creditors	12	9,605	9,645
Other creditors and accrued charges		21,342	14,163
Secured borrowing	14	70,000	–
Amount due to a director	15	18,984	–
Amounts due to related companies		788	467
Obligation under a finance lease – amount due within one year	13	65	34
		120,784	24,309
NET CURRENT ASSETS			
		165,173	135,464
TOTAL ASSETS LESS LIABILITIES			
		316,663	300,127
CAPITAL AND RESERVES			
Share capital	16	373,398	346,160
Reserves		(56,854)	(46,049)
TOTAL CAPITAL AND RESERVES			
		316,544	300,111
NON-CURRENT LIABILITIES			
Obligation under a finance lease – amount due after one year	13	119	16
		316,663	300,127

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 SEPTEMBER 2005

	Share Capital	Share premium	Contribution on surplus	Goodwill reserve	Investment Properties revaluation	Other reserve	Capital redemption reserve	Translation reserve	Accumulated loss	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 April 2004 as originally stated	332,352	676,178	171,671	(56,948)	-	19,208	446	(137)	(752,034)	390,736
Exchange difference on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	-	12	-	12
Impairment loss recognised	-	-	-	3,000	-	-	-	-	-	3,000
Net loss for the period	-	-	-	-	-	-	-	-	(80,344)	(80,344)
Total recognised income and expenses for the period	-	-	-	3,000	-	-	-	12	(80,344)	(77,332)
Exercise of warrants	1,371	891	-	-	-	-	-	-	-	2,262
Transfer from other reserve to share premium due to exercise of warrants	-	758	-	-	-	(758)	-	-	-	-
Exercise of share options	530	832	-	-	-	-	-	-	-	1,362
At 30 September 2004	334,253	678,659	171,671	(53,948)	-	18,450	446	(125)	(832,378)	317,028
Exchange difference on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	-	(5)	-	(5)
Impairment loss recognised	-	-	-	7,777	-	-	-	-	-	7,777
Surplus on revaluation	-	-	-	-	30,990	-	-	-	-	30,990
Net loss for the period	-	-	-	-	-	-	-	-	(82,587)	(82,587)
Total recognised income and expenses for the period	-	-	-	7,777	30,990	-	-	(5)	(82,587)	(43,825)
Exercise of warrants	5,687	3,697	-	-	-	-	-	-	-	9,384
Transfer from other reserve to share premium due to exercise of warrants	-	3,144	-	-	-	(3,144)	-	-	-	-
Exercise of share options	6,220	11,355	-	-	-	-	-	-	-	17,575
Share issue expenses	-	(51)	-	-	-	-	-	-	-	(51)
At 31 March 2005	346,160	696,804	171,671	(46,171)	30,990	15,306	446	(130)	(914,965)	300,111
Effects of changes in accounting policy	-	-	-	-	(30,990)	-	-	-	30,990	-
At 31 March 2005 as restated	346,160	696,804	171,671	(46,171)	-	15,306	446	(130)	(883,975)	300,111

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2005

	Share Capital	Share premium	Contribution on surplus	Goodwill reserve	Investment Properties revaluation	Other reserve	Capital redemption reserve	Translation reserve	Accumulated loss	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 April 2005 as restated	346,160	696,804	171,671	(46,171)	-	15,306	446	(130)	(883,975)	300,111
Exchange difference on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	-	12	-	12
Impairment loss recognised	-	-	-	2,490	-	-	-	-	-	2,490
Gain on expiry of warrant	-	-	-	-	-	(129)	-	-	-	(129)
Net loss for the period	-	-	-	-	-	-	-	-	(58,291)	(58,291)
Total recognised income and expenses for the period	-	-	-	2,490	-	(129)	-	12	(58,291)	(55,918)
Exercise of warrants	24,738	16,080	-	-	-	-	-	-	-	40,818
Transfer from other reserve to share premium due to exercise of warrants	-	13,677	-	-	-	(13,677)	-	-	-	-
Net proceeds from issue of warrant, net of issue expenses	-	-	-	-	-	24,161	-	-	-	24,161
Exercise of share options	2,500	4,875	-	-	-	-	-	-	-	7,375
Share issue expenses	-	(3)	-	-	-	-	-	-	-	(3)
At 30 September 2005	373,398	731,433	171,671	(43,681)	-	25,661	446	(118)	(942,266)	316,544

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 SEPTEMBER 2005

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(139,440)	(34,250)
Net cash used in investing activities	(8,043)	(17,340)
Net cash from financing activities	159,944	3,602
Net increase (decrease) in cash and cash equivalents	12,461	(47,988)
Cash and cash equivalents at 1 April	15,194	69,809
Effect of foreign exchange rate change	12	12
Cash and cash equivalents at 30 September, representing bank balance and deposits with other financial institutions	27,667	21,833

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments, which are measured at fair value or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation has been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(i) Business Combination

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figure for 2004 have not been restated.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(ii) Share-based payments

HKFRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchanges for shares or rights over share ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to those share options granted on or after 1 January 2005 (if any). In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to those share options granted on or before 7 November 2002 and those share options that were granted after 7 November 2002 but were vested before 1 January 2005 in accordance with the relevant transitional provision. The Directors consider the adoption of HKFRS 2 does not have material impact on the results for the six months ended 30 September 2005 and accordingly, no adjustment has been recorded to reflect the impact of applying HKFRS 2 in the unaudited condensed interim financial statements for the six months ended 30 September 2005.

(iii) Financial instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has been no material effect in the presentation of financial instrument in the financial statements of the Group. The principal effects on the Group resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKSA 39.

On or before 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for investments in securities" ("SSAP 24") issued by the HKICPA. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment loss (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. For available-for-sale financial assets which are investment in equity instruments whose fair value cannot be reliably measured, they are measured at cost less impairment which cannot be reversed subsequently. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(iii) Financial instruments (continued)

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under non-current assets with a carrying amount of HK\$1,385,000 and under current assets with a carrying amount of HK\$16,437,000 were classified as “available-for-sale financial assets” and “financial assets at fair value through profit and loss” on 1 January 2005 respectively.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit and loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group’s accumulated loss.

(iv) Owner-occupied leasehold interest in land

In previous period, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively and the financial impact on the Group is set out in note 3.

(v) Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January, 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group’s accumulated loss.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(vi) Deferred taxed related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. However, the adoption of HKAS Interpretation 21 does not have any significant impact on the profit of the prior period and no prior period adjustment is necessary.

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Fund

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in future as to how the results and financial position are prepared and presented.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Loss arising from changes in fair value of financial assets, measured at fair value through profit and loss	<u>(3,930)</u>	<u>–</u>
Increase in loss for the period	<u><u>(3,930)</u></u>	<u><u>–</u></u>

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated)		As at 31 March 2005 (restated)		As at 1 April 2005 (restated)
	HK\$'000	Adjustments HK\$'000	HK\$'000	Adjustments HK\$'000	HK\$'000
Property, plant and equipment	62,004	(25,729)	36,275	–	36,275
Prepaid lease payments	–	25,729	25,729	–	25,729
Investment in securities – non current assets	1,385	–	1,385	(1,385)	–
Available-for-sales financial assets	–	–	–	1,385	1,385
Total effects on assets	<u>63,389</u>	<u>–</u>	<u>63,389</u>	<u>–</u>	<u>63,389</u>
Accumulated loss	(914,965)	–	(914,965)	30,990	(883,975)
Investment properties revaluation reserve	30,990	–	30,990	(30,990)	–
Total effects on equity	<u>(883,975)</u>	<u>–</u>	<u>(883,975)</u>	<u>–</u>	<u>(883,975)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

Income statement for the period ended 30th September

2005

Turnover

	Publishing	Chinese information infrastructure	Investment holding	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External sales	25,248	210	–	0	25,458
Inter-segment sales	–	2	–	(2)	–
Total turnover	<u>25,248</u>	<u>212</u>	<u>–</u>	<u>(2)</u>	<u>25,458</u>
Segment results	<u>3,438</u>	<u>(23,281)</u>	<u>(9,982)</u>		(29,825)
Unallocated corporate expenses					(15,670)
Finance cost					(1,525)
Allowance for loans to associate					(5,400)
Share of result of associates					(3,195)
Share of result of a jointly controlled entity					(315)
Impairment loss recognised in respect of goodwill reserve					(2,490)
Gain on expiry of warrants					129
Loss before taxation					<u>(58,291)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

2004

Turnover

	Publishing	Chinese information infrastructure	Investment holding	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External sales	22,581	174	–	–	22,755
Inter-segment sales	18	–	–	(18)	–
Total turnover	<u>22,599</u>	<u>174</u>	<u>–</u>	<u>(18)</u>	<u>22,755</u>
Segment results	<u>2,584</u>	<u>(17,633)</u>	<u>(40,272)</u>		(55,321)
Unallocated corporate expenses					(18,069)
Finance cost					(5)
Share of result of associates					(3,025)
Share of result of a jointly controlled entity					(924)
Impairment loss recognised in respect of goodwill reserve					<u>(3,000)</u>
Loss before taxation					<u>(80,344)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments

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

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

2005

Turnover

	Hong Kong	PRC	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External sales	25,337	121	–	25,458
Inter-segement sales	2	–	(2)	–
Total turnover	<u>25,339</u>	<u>121</u>	<u>(2)</u>	<u>25,458</u>
Segment result	<u>(44,288)</u>	<u>(1,207)</u>		(45,495)
Finance cost				(1,525)
Allowance for loans to associate				(5,400)
Share of result of associates				(3,195)
Share of result of a jointly controlled entity				(315)
Impairment loss recognised in respect of goodwill reserve				(2,490)
Gain on expiry of warrants				<u>129</u>
Loss before taxation				<u>(58,291)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments (continued)

2004

Turnover

	Hong Kong	PRC	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External sales	22,631	124	–	22,755
Inter-segement sales	18	–	(18)	–
Total turnover	<u>22,649</u>	<u>124</u>	<u>(18)</u>	<u>22,755</u>
Segment result	<u>(67,473)</u>	<u>(5,917)</u>		(73,390)
Finance cost				(5)
Share of result of associates				(3,025)
Share of result of a jointly controlled entity				(924)
Impairment loss recognised in respect of goodwill reserve				<u>(3,000)</u>
Loss before taxation				<u>(80,344)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

5. LOSS BEFORE TAXATION

Six months ended 30 September	
2005	2004
HK\$'000	HK\$'000

Loss before taxation has been arrived at after charging (crediting):

Staff costs	13,795	11,420
Depreciation and amortisation of property, plant and equipment	2,853	4,107
Bank interest income	(166)	(165)
	<u>13,795</u>	<u>11,420</u>

6. FINANCE COSTS

Six months ended 30 September	
2005	2004
HK\$'000	HK\$'000

Interest on secured borrowing	1,519	–
Interest on finance lease	6	5
	<u>1,525</u>	<u>5</u>

7. TAXATION

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$58,291,000 (2004: HK\$80,344,000) and the weighted average number of 3,734,669,763 (2004: 3,333,928,137) ordinary shares in issue during the period.

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

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired equipment amounting to approximately HK\$784,000 (2004: HK\$1,618,000).

At 30 September 2005, the directors considered the carrying amount of the Group's leasehold land and buildings carried at revalued amounts and estimated that the carrying amounts does not differ significantly from that which would be determined fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

The directors have also considered the valuation of the Group's investment properties at 30 September 2005 and have concluded that their fair value at that date are not materially different from their carrying value at 31 March 2005.

The leasehold land and building and investment properties have been pledged to secure a short term borrowings granted to the Group from an independent third party of HK\$70,000,000.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

10. DEVELOPMENT COSTS

	30 September 2005	31 March 2005
	HK\$'000	HK\$'000
COST		
Balance at the beginning of the period	112,961	95,045
Additions	–	17,916
Balance at the end of the period	<u>112,961</u>	<u>112,961</u>
AMORTISATION AND ACCUMULATED IMPAIRMENT LOSS		
Balance at the beginning of the period	80,006	49,488
Amortised for the year	7,291	23,818
Impairment loss recognised	–	6,700
Balance at the end of the period	<u>87,297</u>	<u>80,006</u>
NET BOOK VALUE	<u>25,664</u>	<u>32,955</u>

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

11. TRADE DEBTORS

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

	30 September 2005	31 March 2005
	HK\$'000	HK\$'000
0 – 60 days	6,780	7,360
61 – 90 days	2,440	183
Over 90 days	1,291	1,609
	<u>10,511</u>	<u>9,152</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

12. TRADE CREDITORS

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

	30 September	31 March
	2005	2005
	HK\$'000	HK\$'000
0 – 60 days	6,335	5,086
61 – 90 days	3,042	2,090
Over 90 days	228	2,469
	<u>9,605</u>	<u>9,645</u>

13. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments	Present value of minimum lease payments
	HK\$'000	HK\$'000
Amounts payable under a finance leases:		
Within one year	102	65
In the second to fifth years inclusive	160	119
	262	184
Less: future finance charges	(78)	–
Present value of lease obligation	<u>184</u>	184
Less: amount due from settlement within one year shown under current liabilities		<u>(65)</u>
Amount due after one year		<u>119</u>

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

14. SECURED BORROWING

The secured borrowing of the amount of HK\$70,000,000 from an independent third party during the period is secured by the Group's leasehold land and buildings and investment properties, carrying with an interest rate of 8% per annum and repayable within one year.

15. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, interest free and have no fixed repayment terms.

16. SHARE CAPITAL

	Number of shares		Share capital	
	30 September 2005 '000	31 March 2005 '000	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:	6,000,000	6,000,000	600,000	600,000
Issued and fully paid:				
At the beginning of the period	3,461,600	3,323,520	346,160	332,352
Exercise of share options	25,000	67,500	2,500	6,750
Exercise of warrants	247,380	70,580	24,738	7,058
At the end of the period	3,733,980	3,461,600	373,398	346,160

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

17. WARRANTS

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

During the period, registered holders of 247,380,000 units of the 2005 Warrants exercised their right to subscribe for 247,380,000 shares in the Company at HK\$0.165 per shares. The remaining 2,320,000 units of outstanding 2005 Warrants were lapsed on 7 July 2005.

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

The net proceeds of the placing of approximately HK\$24,161,000 will be mainly used for general working capital as to advertising and promotion of the Group's technology products and general administrative expenses of the Group.

18. RELATED PARTY TRANSACTIONS

During the period, 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 expenses paid to related companies		Amounts due from related companies		Amounts due to related companies	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	378	300	60	60	78	55	436	1,480	77,889	75,850	-	-
Subsidiaries of a shareholder	126	153	-	-	26	31	14	13	7,377	7,955	788	11
Jointly controlled entity	-	-	-	-	-	-	-	-	1,722	1,214	-	-

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

19. CAPITAL COMMITMENTS

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

20. LITIGATION

- (i) In 2000, Times Ringier (HK) Limited (the "Plaintiff") claimed against the Company as the second defendant for the sum of HK\$11,966,523.72, being the alleged amount outstanding from March 2000 to June 2000 of the price of "Tin Tin Daily News" printed and produced by the Plaintiff at the request of Tin Tin Publication Development Limited and for its account together with interest thereon, in respect of which it was alleged that the Company as the second defendant had agreed to indemnify and keep the Plaintiff indemnified fully for any loss and damage that the Plaintiff may have suffered. The action has been set down for trial on 31 October 2005. Having balanced the Company's meritorious grounds to defend and its merits and evidence, the Plaintiff agreed to a relatively modest amount of HK\$7,500,000 (inclusive of all the Plaintiff's legal costs and expenses and interests accrued since 2000) and discontinued all claims against the Company pursuant to an Consent Order dated 26 October 2005. Accordingly, a provision for the amount of HK\$7,500,000 has been included in financial statements.
- (ii) In May 2003, Winway H.K. Investments Limited ("Winway"), a wholly owned subsidiary of the Company, has placed 300,000,000 shares (the "Q9 shares") of Q9 Technology Holdings Limited ("Q9 Technology") with TKR Finance Limited ("TKR Finance") for safe custody and to facilitate management of Q9 Shares. These Q9 Shares were not placed nor pledged as securities or collateral to secured any financing or whatsoever, but only to facilitate their management because Winway did not want to hold these Q9 Shares in physical scrip and to facilitate transfer in future. For these reasons, Winway retained the legal and beneficial title to the Q9 Shares at all material times. In June 2004, Winway was informed by Q9 Technology that it had received a copy of the disclosure of interests form filed pursuant to the Securities and Futures Ordinance by the provisional liquidator of TKR Finance claiming security interest in the Q9 Shares, of which Winway had no prior knowledge nor given any consent thereto. Further, Winway was not aware of any matters that may lead to such consequence. Upon receipt of such information, Winway had sought legal advice and had notified the provisional liquidator of TKR Finance about its title to the Q9 Shares and demanded the return of the same from TKR Finance. Currently, Winway is positively seeking a feasible resolution and negotiating with the relevant parties to reclaim the Q9 Shares. The Directors considered that this matter would not have any material impact on the financial position or operations of the Group and accordingly, no provision has been made in respect of the market value of the Q9 of approximately HK\$6,000,000 as at 30 September 2005.
- (iii) In October 2005, Culturecom e-publication Limited ("Culturecom e-publication"), a wholly owned subsidiary of the Company, and The Universal.Com Technology Limited ("Universal.Com Technology"), an associate company of the Company, received court documents from a district court of Taiwan concerning complaints from two publishing companies in Taiwan against Culturecom e-publication, Universal.Com Technology and one Taiwan company for infringement of copyright and claimed damages in the total sum of NT\$1,000,000. Full amount of the claim has been provided in the financial statements.

21. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 September 2005, the Group's consolidated net loss attributable to shareholders decreased approximately by 27% to approximately HK\$58,291,000 as compared to that of the last period. The loss per share for the period was HK1.56 cents (2004: HK2.41 cents). The analysis of the income statement is as follows:

(i) *Turnover*

The Group's overall turnover for the period ended 30 September 2005 increased approximately by 12% to approximately HK\$25,458,000 over last period, of which approximately HK\$25,248,000 and HK\$210,000 (2004: HK\$22,581,000 and HK\$174,000) were attributable to our business of comics publication and Chinese information infrastructure respectively;

(ii) *Administrative expenses*

The administrative expenses of the Group for the period was decreased by approximately HK\$3,142,000, representing 9%, which was mainly attributable to the decrease in the amount of HK\$6,635,000 in advertising and promotional expenses in the Group's technology projects and increase in the amount of HK\$2,375,000 in relation to the staff cost of the Group as well as general administrative expenses in the amount of HK\$1,118,000;

(iii) *Provision for claim*

In 2000, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 in relation to a guarantee given to the plaintiff for printing charges of "Tin Tin Daily News" for the period from March 2000 to June 2000. In October 2005, the Plaintiff accepted a relatively modest amount of HK\$7,500,000 (inclusive of all the Plaintiff's legal costs and expenses and interests accrued since 2000) and discontinued all claims against the Company. Accordingly, a provision of HK\$7,500,000 has been made in financial statements;

(iv) *Net unrealised loss on financial assets at fair value through profit and loss*

The finance assets such as investment in listed securities were measured by the Group at their fair value as at 30 September 2005. An net unrealised loss of approximately HK\$3,930,000 was recorded in the financial statements;

(v) *Finance costs*

The increase in finance costs of approximately HK\$1,520,000 for the period was the result of interest expenses related to the secured borrowing of HK\$70,000,000 obtained by the Group in June 2005 for the balance payment of the asset purchase agreement and licence agreement; and

(vi) *Allowance for loans to associate*

During the period, allowances of approximately HK\$5,400,000 (2004: nil) for loans to an associated company of the Group were made due to the continuous losses incurred by the associated company.

At 30 September 2005, the Group's net asset value was HK\$316,544,000 and net asset value per weighted average number of 3,734,669,763 shares of the Company was approximately HK\$0.08 (2004: HK\$0.10).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Convertible Bonds

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

Warrants

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

During the period up to the expiry date of the warrants, 247,380,000 warrants had been exercised and the Company received the net proceeds of approximately HK\$40,817,700 from the exercise of the warrants.

On 18 August 2005, the Company entered into a placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants conferring rights to subscribe up to HK\$113,520,000 in cash for sales of the Company at an initial subscription price of HK\$0.172 per share during the two years period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of warrant was completed on 28 September 2005. The net issue proceeds of the Placing of about HK\$24,161,000 will be mainly used for general working capital as to advertising and promotion of the Group's technology products and general administrative expenses of the Group.

Purchase of Assets and Licence of Technology

On 27 May 2005, the Group and Transmeta Corporation signed agreements, whereby the Group should (i) purchase the Acquired Crusoe Assets and Technology for US\$5,000,000; and (ii) be licensed to manufacture and sell the Efficeon Microprocessor and to use the Manufacturing Tools (for manufacture and sale of the Crusoe Microprocessor) for US\$10,000,000 plus on-going royalty. The upfront payments of US\$15,000,000 were made in June 2005, and currently held in the escrow account of an independent financial institution. On 27 October 2005, the subject major transaction of the Company was approved and passed as an ordinary resolution by the shareholders of the Company at the special general meeting of the Company. By the date hereof, the subject major transaction is pending completion of the remaining conditions stipulated in the agreements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Issue of Shares of Culture.com Technology Limited

On 30 August 2005, Culture.com Technology Limited ("Culture.com Technology") entered into a conditional subscription agreement with REXCAPITAL International Holdings Limited ("REXCAPITAL") in relation to the subscription by REXCAPITAL of 100 new ordinary shares of HK\$1.00 each in the share capital of Culture.com Technology ("Subscription Shares") at a consideration of the lower of the sum of HK\$73,500,000 or 10% of the valuation value of such new shares in Culture.com Technology to be satisfied by REXCAPITAL issuing the appropriate number of new ordinary shares in the share capital of REXCAPITAL in favour of Culture.com Technology. At the date of completion, the Subscription Shares will represent 10% of the enlarged issued share capital of Culture.com Technology. On 28 November 2005, as additional time was required for the independent professional consultant appointed by REXCAPITAL to prepare a report on the valuation value, Culture.com Technology and REXCAPITAL had agreed to extend the long stop date of the transaction to 31 December 2005.

Pledge of Assets

As at 30 September 2005, secured borrowing repayable within one year amounted to HK\$70,000,000 was secured by legal charge over the leasehold land and building and investment properties of the Group with aggregate carrying value of approximately HK\$73,604,000.

Liquidity and Financial Resources

As at 30 September 2005, the Group had bank and cash balances in aggregate of approximately HK\$27,667,000 and financial assets at fair value through profit and loss of approximately HK\$16,437,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30 September 2005, the Group had a net current asset of approximately HK\$165,173,000 (31 March 2005: HK\$135,464,000) and a current ratio of 2.37 (31 March 2005: 6.57). The Group's total liabilities as at 30 September 2005 amounted to approximately HK\$120,903,000 and represented approximately 38.19% (31 March 2005: 0.08%) 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 exercise of 2007 Warrants in the future would further strengthen the financial position of the Group.

Employment and Remuneration Policies

As at 30 September 2005, the Group had a total of 169 employees of which 70 are based in Hong Kong, 53 in Macau and 46 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$13,795,000 (2004: HK\$11,420,000). Remuneration packages are maintained at competitive level and review 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.

INTERIM DIVIDEND

The Board of Directors of the Company has resolved not to declare an interim dividend for the six months ended 30 September 2005 (2004: nil).

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 six months ended 30 September 2005.

SHARE OPTION SCHEME

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.

Details of the movement of the share options granted to the Directors and employees of the Company under the 1993 Scheme during the six months ended 30 September 2005 are as follows:

	Date of Grant	At 1 April 2005	Exercised during the period	Number of share options Granted/ Lapsed/ Cancelled during the period	At 30 September 2005	Exercise price per share HK\$	Exercisable Period
(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. Cheung Kam Shing, Terry	3 March 2000	3,000,000	–	–	3,000,000	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	–	–	25,035,000	1.680	3 March 2000 to 2 March 2010

SHARE OPTION SCHEME (CONTINUED)

Details of the movement of the share options granted under the 2002 Scheme during the six months ended 30 September 2005 are as follows:

	Date of Grant	Number of share options				At 30 September 2005	Exercise price per share	Exercisable Period	Price of the Company's shares at immediately preceding the exercise date of share options (note)	
		At 1 April 2005	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period					
							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
	Mr. Cheung Kam Shing, Terry	19 December 2003	3,000,000	-	-	-	3,000,000	0.265	19 December 2003 to 18 December 2013	N/A
	Mr. Henry Chang Manyan	19 December 2003	1,000,000	-	-	-	1,000,000	0.265	19 December 2003 to 18 December 2013	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
(b) Employees										
	(i)	19 December 2003	37,700,000	-	-	-	37,700,000	0.265	19 December 2003 to 18 December 2013	N/A
	(ii)	24 March 2005	71,000,000	-	-	-	71,000,000	0.295	24 March 2005 to 23 March 2015	N/A
(c) Others										
	(i)	19 December 2003	20,000,000	-	-	-	20,000,000	0.265	19 December 2003 to 18 December 2013	N/A
	(ii)	24 March 2005	227,000,000	-	(25,000,000)	-	202,000,000	0.295	24 March 2005 to 23 March 2015	0.33

Note: The price of the Company's shares 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.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors

As at 30 September 2005, 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 of Hong Kong Limited (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	220,180,000	9.19%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (note 1)	
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)

Interests in the share option of the Company

Name of Director	Capacity	Nature of interests	Number of share options	Exercise price per share HK\$	Exercisable period	Approximate percentage of issued share capital
Mr. Cheung Wai Tung	(i)	Beneficial owner	Personal interest 4,565,000 <i>(note 1)</i>	1.680	3 March 2000 to 2 March 2010	0.23%
	(ii)	Beneficial owner	Personal interest 4,000,000 <i>(note 1)</i>	0.265	19 December 2003 to 18 December 2013	
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest 10,000,000 <i>(note 2)</i>	0.264	27 August 1999 to 26 August 2009	0.32%
	(ii)	Beneficial owner	Personal interest 2,000,000 <i>(note 2)</i>	1.680	3 March 2000 to 2 March 2010	
Mr. Cheung Kam Shing, Terry	(i)	Beneficial owner	Personal interest 3,000,000 <i>(note 3)</i>	1.680	3 March 2000 to 2 March 2010	0.16%
	(ii)	Beneficial owner	Personal interest 3,000,000 <i>(note 3)</i>	0.265	19 December 2003 to 18 December 2013	
Mr. Henry Chang Manayan	(i)	Beneficial owner	Personal interest 1,000,000 <i>(note 4)</i>	0.264	27 August 1999 to 26 August 2009	0.04%
	(ii)	Beneficial owner	Personal interest 500,000 <i>(note 4)</i>	1.680	3 March 2000 to 2 March 2010	
	(iii)	Beneficial owner	Personal interest 1,000,000 <i>(note 4)</i>	0.265	19 December 2003 to 18 December 2013	
Mr. Wan Xiaolin	(i)	Beneficial owner	Personal interest 1,000,000 <i>(note 5)</i>	1.680	3 March 2000 to 2 March 2010	0.11%
	(ii)	Beneficial owner	Personal interest 3,000,000 <i>(note 5)</i>	0.265	19 December 2003 to 18 December 2013	

DISCLOSURE OF INTERESTS (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. Cheung Kam Shing, Terry was granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010 upon his appointment as Managing Director of the Company on 1 April 2000. On 19 December 2003, Mr. Cheung 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.
4. 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 the aggregate of 2,000,000 shares at the exercise price of HK\$0.264 on 18 February 2000 and 6 April 2004 respectively. 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.
5. 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.

DISCLOSURE OF INTERESTS (CONTINUED)

Save as disclosed above, as at 30 September 2005, 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.

(b) Interests of Substantial Shareholders

As at 30 September 2005, so far as is known to any Director or chief executive of the Company, the following person has 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	220,180,000	9.19%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (note 1)	

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)

Interest in the share options of the Company

Name of Director	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	0.32%

The interest stated above represents long position.

Save as disclosed above, as at 30 September 2005, 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.

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 three independent non-executive Directors, namely Mr. Lai Man To, 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 unaudited interim results for the six months ended 30 September 2005.

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 during the six months ended 30 September 2005 except for the following deviations:

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. The Company does not at present 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 believes that vesting the roles of both Chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (CONTINUED)

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 B.1

The Company has not set up a Remuneration Committee during the period. However in November of this year, the Remuneration Committee with appropriate composition and terms of reference was established by 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 six months ended 30 September 2005.

By Order of the Board
Cheung Wai Tung
Chairman

Hong Kong, 20 December 2005