# CULTURECOM HOLDINGS LIMITED

# 文化傳信集團有限公司*

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 343)
(Warrant Code: 424)

# INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

## 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*

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (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 | | **(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) |

| | Notes | Six months ended 30 September 2005 HK$'000 (unaudited) | 2004 HK$'000 (unaudited) |
|---|---|---|---|
| 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 | 6 | **–** | – |
| Loss for the period | | **(58,291)** | (80,344) |
| Loss per share – basic and diluted | 7 | **HK(1.56) cents** | HK(2.41) cents |

## CONDENSED CONSOLIDATED BALANCE SHEET

*AT 30 SEPTEMBER 2005*

| | 30 September 2005 HK$'000 (unaudtied) | 31 March 2005 HK$'000 (audited and) restated) |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | **34,207** | 36,275 |
| Investment properties | **56,015** | 56,015 |
| Development costs | **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 | **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 deposits with other financial institutions | **27,667** | 15,194 |
| | **285,957** | 159,773 |
| **CURRENT LIABILITIES** | | |
| Trade creditors | **9,605** | 9,645 |
| Other creditors and accrued charges | **21,342** | 14,163 |
| Secured borrowing | **70,000** | – |
| Amount due to a director | **18,984** | – |
| Amounts due to related companies | **788** | 467 |

| | 30 September 2005 HK$'000 (unaudtied) | 31 March 2005 HK$'000 (audited and) restated) |
|---|---|---|
| Obligation under a finance lease – amount due within one year | **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 | **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 | **119** | 16 |
| | **316,663** | 300,127 |

## 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.

**(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 asssets 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" are "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

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.

**(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 Decommissing, 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.

**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** *HK$'000* | 2004 *HK$'000* |
|---|---|---|
| Loss arising from changes in fair value of financial assets, measured at fair value through profit and loss | **(3,930)** | – |
| Increase in loss for the period | **(3,930)** | – |

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) *HK$'000* | Adjustments *HK$'000* | As at 31 March 2005 (restated) *HK$'000* | Adjustments *HK$'000* | As at 1 April 2005 (restated) *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 | 63,389 | – | 63,389 | – | 63,389 |
| Accumulated loss | (914,965) | – | (914,965) | 30,990 | (883,975) |
| Investment properties revaluation reserve | 30,990 | – | 30,990 | (30,990) | – |
| Total effects on equity | (883,975) | – | (883,975) | – | (883,975) |

**4. Business and Geographical Segments**

*Business segments*

Income statement for the period ended 30 September

**2005**

Turnover

| | Publishing *HK$'000* | Chinese information infrastructure *HK$'000* | Investment holding *HK$'000* | Elimination *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|
| External sales | **25,248** | **210** | **–** | **–** | **25,458** |
| Inter-segment sales | **–** | **2** | **–** | **(2)** | **–** |
| Total turnover | **25,248** | **212** | **–** | **(2)** | **25,458** |
| Segment results | **3,438** | **(23,281)** | **(9,982)** | **–** | **(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 | | | | | **(58,291)** |

2004
Turnover

| | Publishing HK$'000 | Chinese information infrastructure HK$'000 | Investment holding HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| External sales | 22,581 | 174 | – | – | 22,755 |
| Inter-segment sales | 18 | – | – | (18) | – |
| Total turnover | 22,599 | 174 | – | (18) | 22,755 |
| Segment results | 2,584 | (17,633) | (40,272) | – | (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 | | | | | (3,000) |
| Loss before taxation | | | | | (80,344) |

*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** *HK$'000* | **PRC** *HK$'000* | **Elimination** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| External sales | **25,337** | **121** | **–** | **25,458** |
| Inter-segment sales | **2** | **–** | **(2)** | **–** |
| Total turnover | **25,339** | **121** | **(2)** | **25,458** |
| Segment result | **(44,288)** | **(1,207)** | | **(45,495)** |
| Finance cost | | | | **(1,525)** |
| Allowance for loans to associates | | | | **(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 | | | | **(58,291)** |

2004
Turnover

| | Hong Kong *HK$'000* | PRC *HK$'000* | Elimination *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| External sales | 22,631 | 124 | – | 22,755 |
| Inter-segment sales | 18 | – | (18) | – |
| Total turnover | 22,649 | 124 | (18) | 22,755 |
| Segment result | (67,473) | (5,917) | | (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 | | | | (3,000) |
| Loss before taxation | | | | (80,344) |

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) |

6. **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.

7. **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.

## 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).

## 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).

**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.

**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 Polices**

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.

## 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.

### 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.

## 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.

## 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 of Hong Kong Limited (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.

**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.

## PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All information as required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board of
**CULTURECOM HOLDINGS LIMITED**
**Cheung Wai Tung**
*Chairman*

Hong Kong, 20 December 2005

*As at the date of this announcement, the Board comprises of Mr. Cheung Wai Tung, Mr. Chu Bong Foo, Mr. Cheung Kam Shing, Terry, Mr. Wan Xiaolin, Mr. Henry Chang Manayan (all being executive Directors); and Mr. Lai Man To, Mr. Wang Tiao Chun, Mr. Joseph Lee Chennault (all being independent non-executive Directors).*

* *for identification purpose only*

Please also refer to the published version of this announcement in the China Daily.