



CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 343)

RESULTS ANNOUNCEMENT

RESULTS

The Board of Directors (the “Directors”) of Culturecom Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st March, 2004 together with comparative figures for the corresponding year of 2003 are as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST MARCH

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	2	40,655	59,138
Cost of sales		(31,364)	(48,220)
Gross profit		9,291	10,918
Other operating income		7,942	3,584
Administrative expenses		(64,458)	(78,787)
Amortization of development costs		(18,706)	(18,431)
Research and development expenditures		(4,815)	(9,356)
Allowances for other debtors and deposits		(1,123)	(25,975)
Net unrealized gain (loss) on other investments		15,600	(5,565)
Amortization of goodwill		-	(220)

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
Loss from operations	3	(56,269)	(123,832)
Share of results of associates		(9,514)	(8,518)
Share of result of a jointly controlled entity		(1,136)	(2,607)
Gain on disposal of associates		1,995	–
Loss on deemed disposal of associates		(1,548)	–
Finance costs		(9)	(16)
Impairment loss recognized in respect of goodwill reserves		(6,000)	–
Gain on disposal of subsidiaries		–	16,328
Allowance for loans to associates		–	(28,000)
Impairment loss recognized in respect of goodwill arising on acquisition of an associate		–	(4,389)
Gain on expiry of warrants		–	97
Loss before taxation		(72,481)	(150,937)
Taxation	4	–	141
Loss before minority interests		(72,481)	(150,796)
Minority interests		14	1,434
Net loss for the year		(72,467)	(149,362)
Loss per share – basic and diluted	5	HK(2.37)cents	HK(4.99) cents

Notes:

1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”). The term HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKSA.

SSAP 12 (Revised) Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this SSAP has had no material effect on the results for the current or prior accounting years.

2. TURNOVER

Business segments

	Publishing and related business <i>HK\$'000</i>	Chinese information infrastructure <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
2004				
Turnover	<u>39,184</u>	<u>1,471</u>	<u>-</u>	<u>40,655</u>
Segment results	<u>377</u>	<u>(29,409)</u>	<u>(15,490)</u>	<u>(44,522)</u>
Unallocated corporate expenses				<u>(11,747)</u>
Loss from operations				<u>(56,269)</u>
Share of results of associates	-	(7,654)	(1,860)	(9,514)
Share of result of a jointly controlled entity	-	(1,136)	-	(1,136)
Gain on disposal of an associate	-	-	1,995	1,995
Loss on deemed disposal of an associate	-	(1,548)	-	(1,548)
Finance costs				(9)
Impairment loss recognized in respect of goodwill reserves	-	(6,000)	-	<u>(6,000)</u>
Loss before taxation				<u>(72,481)</u>
Taxation				<u>-</u>
Loss before minority interests				<u>(72,481)</u>
Minority interests				<u>14</u>
Net loss for the year				<u><u>(72,467)</u></u>

	Publishing and related business <i>HK\$'000</i>	Chinese information infrastructure <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
2003				
Turnover	55,539	3,599	–	59,138
Segment results	3,480	(58,089)	(34,684)	(89,293)
Unallocated corporate expenses				(34,539)
Loss from operations				(123,832)
Share of results of associates	–	(8,518)	–	(8,518)
Share of result of a jointly controlled entity	–	(2,607)	–	(2,607)
Gain on disposal of subsidiaries	–	16,328	–	16,328
Allowances for loans to associates	–	–	(28,000)	(28,000)
Impairment loss recognized in respect of goodwill arising on acquisition of an associate	–	(1,389)	(3,000)	(4,389)
Gain on expiry of warrants				97
Finance costs				(16)
Loss before taxation				(150,937)
Taxation credit				141
Loss before minority interests				(150,796)
Minority interests				1,434
Net loss for the year				(149,362)

Geographical segments

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

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

	Turnover		Loss from operations	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	40,373	56,715	(39,345)	(101,628)
PRC	282	2,423	(16,924)	(22,204)
	<u>40,655</u>	<u>59,138</u>	<u>(56,269)</u>	<u>(123,832)</u>

3. LOSS FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Staff and directors' costs	30,222	44,663
Less: Amount capitalized in the development cost	5,356	5,093
	<u>24,866</u>	<u>39,570</u>
Auditors' remuneration	870	950
Write-down of inventories	2,500	1,078
Depreciation and amortization	10,957	10,363
Net realized (gain) loss on investments in securities	(1,960)	1,898
Interest income	(389)	(754)
Dividend income	(140)	(375)

4. 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 year. The Group has no estimated assessable profits in other jurisdiction for the year.

The taxation credit represents the overprovision of Hong Kong Profits Tax in previous years.

5. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$72,467,000 (2003: HK\$149,362,000) and the weighted average number of 3,058,898,000 (2003: 2,993,968,000) ordinary shares in issue during the year.

The computation of diluted loss per share for both years did not assume the exercise of the Company's outstanding share options and warrants since their exercise would reduce net loss per share.

6. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. As a result, the gain on disposal of subsidiaries of HK\$16,328,000 in last year was reclassified as non-operating result, and the operating loss for last year was changed from HK\$107,504,000 to HK\$123,832,000.

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's overall turnover for the year ended 31st March, 2004 decreased by 31% to approximately HK\$40,655,000 over last year, of which approximately HK\$39,184,000 and HK\$1,471,000 (2003: HK\$55,539,000 and HK\$3,599,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the year ended 31st March, 2004, the Group's consolidated net loss attributable to shareholders decreased by 52% to approximately HK\$72,467,000 as compared to that of the last year. The loss per share for the year was HK2.37 cents (2003: HK4.99 cents). The loss from the operation for the year under review was mainly due to:

- (i) the management has imposed further control on the operating costs, the administrative expense for the year was decreased by approximately HK\$14,329,000 or 18% over the previous year, which was mainly attributable to the decrease in staff costs by approximately 37%;
- (ii) allowances of approximately HK\$1,123,000 for the other debtors and deposits was made while the allowances made for last year was approximately HK\$25,975,000;
- (iii) amortization of deferred development costs amounted to HK\$18,706,000 and expenditures of approximately HK\$4,815,000 charged during the year for the research and development of the information technology projects; and
- (iv) unrealized gain on other investments of approximately HK\$15,600,000 but it was a loss of approximately HK\$5,565,000 in last year.

The Directors believe that the loss for the consecutive financial years will be improved once when the revenue from the group's technology projects is generated in the coming year. In fact, sales orders in respect of V-Dragon CPU and its mother board have been received, and sales revenue thereof will be recognised when the products are delivered in next year.

At 31st March, 2004, the Group's net asset value was HK\$390,736,000 and net asset value per weighted average number of 3,058,898,000 shares of the Company was approximately HK\$0.13 (2003: HK\$0.12).

Placement of Warrants

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in connection with 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 HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.165 per share during the two years period from 8th July, 2003 to 7th July, 2005, both days inclusive. The placing of warrants was completed on 4th July, 2003. The net proceeds of the placing of approximately HK\$23,774,000 had been used for the general working capital of the Group.

During the year, 109,720,000 warrants had been exercised and the Company received approximately HK\$18,104,000 from the proceeds of the exercise of the warrants of which, approximately HK\$1,241,000 was used as working capital of the Group and the balance of approximately HK\$16,863,000 was placed as deposits with banks in Hong Kong at the end of the year.

Liquidity and Financial Resources

As at 31st March, 2004, the Group had deposits with banks and other financial institutions in aggregate of approximately HK\$69,809,000 and marketable securities of approximately HK\$65,948,000. The Group has no significant exposure to foreign exchange rate fluctuations.

As at 31st March, 2004, the Group's total liabilities amounted to HK\$23,398,000 and represented approximately 6% (2003: 6%) to the shareholders' equity.

The Directors believe that the Group currently has sufficient liquidity to finance its daily operation, and the net proceeds from the exercise of the remaining warrants in the future would further strengthen the financial position of the Group.

Development costs of I.T. projects

As at 31st March, 2004, accumulated costs incurred for the development of the Group's information technology projects amounted approximately to HK\$95,045,000 (2003: HK\$86,288,000). These development costs are deferred and written off over its estimated useful life range from two to five years from the date of commencement of commercial operations. For the year ended 31st March, 2004, the amortization of development costs amounted to approximately HK\$18,706,000 (2003: HK\$18,431,000). In additions, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$4,815,000 (2003: HK\$9,356,000).

Employment and Remuneration Policies

As at 31st March, 2004, the Group had a total of 125 employees, of which 89 are based in Hong Kong, 28 are based in Macau and 8 are based in the PRC. Total staff costs incurred during the year amounted to approximately HK\$30,222,000 (2003: HK\$44,663,000). Remuneration packages are maintained at competitive level and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors, employees and consultants, according to the assessment of individual merit and performance.

Business Review

Foreword

One could always recall Mr. Chu Bong Foo, Vice-Chairman of the Group, made public his “concept computing-network” speech at the National Taiwan University in 1993 and his theory and construction work of “Chinese Character DNA” in July 1999 in Beijing, which stirred up brisk discussions and controversies that are still vivid in mind, feeling as if one experienced them in person. Over the past six years, the entire Group has paid unrelenting efforts to develop “V-Dragon Chinese Computer Core”, throughout when we have had the pleasure to be considerably supported by IBM and the various Linux teams. As a result, we have led the computer system into the reforming stage where a new age of Chinese Intelligent Computer will come about. Sharing the same goal of imparting and inheriting the 5000-year-old Chinese culture, which bears the label of being one of the world’s “Four Greatest Civilizations”, and merging the Western and Eastern cultures in the IT era, Mr. Chu Bong Foo and every colleague of Culturecom have dedicated themselves wholeheartedly to the work.

The new system of theory and construction work of “Chinese Character DNA” and Culturecom’s Industrial Standard of “V-Dragon Chinese Intelligent Appliance Computing Products”

After six years of hardship, the Group’s insistence on promoting the full computer popularization in China has hardly ceased. The ideal computing evolution we endeavor to research on and to develop does not aim at encouraging the public to “Learn computer skills and use Chinese”, but to “Learn Chinese and use computers”. This is the type of computer which will become in the genuinely popularized form. In order to invent such kind of computers, we have no choice but to start from research in the area of “Chinese Character DNA”.

Mr. Chu Bong Foo, Vice-Chairman of the Group, has immersed himself in the research work of DNA of Chinese processing. His historical contribution lies in the invention of “Chinese Character DNA” which can fit perfectly into the computer calculating system, which he achieved, on the basis of the existing abundant pool of Chinese culture and history research information, through the tedious processes of simplification and denumerization. His spirit of dogged perseverance embodied in rearranging the numerous Chinese characters has eventually been rewarded by the successful integration of traditional Chinese culture and characters, which have existed for thousands of years, and the computer’s CPU, the core of modern information technology.

In the process of carrying out the R&D on “Chinese Character DNA”, Mr. Chu Bong Foo successfully distilled the “DNA” of Chinese character’s definitions out and categorized them into an Indexing system of “conceptual structure” and Indexing system of “application and causation knowledge base”, forming a complete system of “Chinese characters’ cognition”. When the computer accepts Chinese characters, various Chinese humanities and related knowledge will automatically be functioned within the computer’s cognizance through the cognition system, resulting in that the computer will understand Chinese character. In the future, it is possible that everyone can use the natural language of Chinese to give instructions to their computer, and the computer will follow up the users’ instructions in using the natural language. Thereby, the computer will become a more suitable application tool for the general public to use in their daily life.

In the year 2003, under the inspiring guidance of the theory of “Chinese Character DNA”, Culturecom, in collaboration with IBM, developed V-Dragon CPU, which was embedded with the world’s first grain of 64-base components conceptual DNA of Chinese Characters and which was embedded with the “Chinese Character Generating Engine” (CCG) and the “Chinese Character Driver” (CCD).

Subsequently, the Group has started to develop Midori Linux, the core of the embedded operating system (Kernel), connecting to the “Chinese characters’ cognition system” with the embedded operating system and forming “Midori Linux Chinese Character’s Intelligent Operation System” with the “Chinese Character Generating Environment”, which enables users, with the help of “Culturecom Code” (CC Code), to use the natural language of Chinese to freely instruct the computers to operate according to human demand. “Embedded Chinese Character’s Intelligent Operation System Code” (Midori CI Kernel) will become the world’s first popularized and general intelligent I.A. operating platform.

V-Dragon CPU, the CPU in which the 64-base components conceptual DNA of Chinese Characters was embedded, and “Midori Linux Chinese Character’s Intelligent Operation System” formed the core of “Chinese Character DNA”, which in effect is the core technology of the Chinese Intelligent IT industry, and the core technology for the industrial development of various intelligent computers I.A. and intelligent electrical appliances, including intelligent telephones and intelligent televisions. Meanwhile,, it will definitely initiate a direction for the Chinese computer industry development. It will leap over the historical stage of PC, liberate itself from Wintel’s monopolistic control, assist the non-PC community to realize a swift popularization of computer and to enter into the informative society. It will become a way out for the global IT industry development.

V-Dragon CPU and its Mother Board

The success of a new computer industry technology is greatly dependent on the success of the computer popularized market in China. Therefore, the Group has formed an important strategic alliance with IBM. With the assistance of IBM, we have successfully developed V-Dragon CPU, the world's first grain of CPU in which the conceptual genetics of 64-digit Chinese Characters was embedded. Targeting at the beginners who use computers other than PC, we have technologically prepared ourselves. Together with IBM, we aim at developing the market of 1,200,000,000 new computer users in China, expanding the Chinese computer business and building up a brand new customer community outside the PC market.

In July 2003, the Group has officially launched the V-Dragon CPU and its mother board at the "First Conference on the Development of Chinese IT & V-Dragon CPU Trade Forum", which was held in Hong Kong. Shortly after the Conference, the Group won the close attention from the international scientific and technological communities. In February 2004, the Group convened the "Seminar of the Creation of China's Self-Developed IT Standard" in Shenzhen and announced the official birth of an "Industrial Standard of V-Dragon Midori Embedded System" in the meeting. This new embedded general operation technological structure and standard will integrate with the prosperous industry of electrical appliances in China, which will result in the commencement of a brand new Chinese Intelligent Computer industry.

During last year, since V-Dragon CPU and its mother board have been launched, large numbers of manufacturers inside and outside the country have expressed their interests in applying the V-Dragon Core Technology to develop various kinds of new-generation Chinese Intelligent I.A. products, including Chinese Intelligent tax controlled gathering machine, Chinese Intelligent learning machine and Chinese Intelligent set top box. It is estimated that all of these will in turn be launched in the market next year, bringing substantial returns to the Group.

Great Network-towns of COL-eTown

The Group and IBM have collaborated to meet the strategic aim which is to create new market ecology of "Chinese intelligent computer industry. Therefore, under the "Chinese COL-eTown" plan, and through the Chinese computer network, the Group has constructed an enormous Chinese computer user base to form an extensive info-community comprising of counties and towns, and thus to establish a national "Great Network-towns" of COL-eTown.

COL-eTown is an entity focusing on B2C model, which is a regional distributor of V-Dragon CPU and also serves as the trading, logistic and management platform for various types of township internet-based commodities trade. This brand-new computer application system creates an info-community of Chinese computer network. Different kinds of software, content, education, production and operation activities, technology support, information service and forth are supported by the centralized COL-eTown system, and connected to all end-users, such that the intellectual property rights can be effectively esteemed and protected in a protective system, and that different kinds of livelihood technology and IT industry in the world are orderly introduced to and applied in the township economy, with an aim to establish an internationally united-systemized knowledge-economic development zone.

Moreover, the COL-eTown computer application system with low price, whole Chinese operation, and full scale guide, support and services will induce transformation in a New Economic Development Model of “Three Farming Technology” for outland China and some medium to small towns, enabling the great majority of the mainland cities and towns to build up knowledge-based local new industry, agriculture and processing industry with direct connection with the international market by leveraging the information technology means that can shorten time-space distances, and realizing the full transformation to the new agricultural economy characterized by knowledge-economy and “Three Farming and Three Transforming” (namely rural informatization, farmers intellectualization and enterprise-style operation, agriculture internationalization). Thus, COL-eTown, the enormous development region of knowledge-economy, will sure to greatly encourage the international IT industry and forebode a vast new giant business opportunity to be developed and shared by all.

Comic Business

Recovery of overall economy in Hong Kong since last October had brought Culturecom’s comic business back to normal. Outbreak of SARS dampened the market environment in South East Asia during the first half of the financial year and had trimmed our turnover and margin. Our efforts to set up a multi-media platform in Greater China continue with increasing number of collaborators will launch our value-added services in the second half of 2004.

Prospects

We believe that the V-Dragon new industrial system and standard can totally get rid of the fetters of the structure of “Wintel x86”, genuinely accomplish the take-off and popularization of the desirable computers, making it a living tool of the general public. As such, an era of using the desirable computers will see the device to be “Existing everywhere, Existing all around” is drawing near.

CLOSURE OF REGISTERS OF MEMBERS

The principal Register of Members and the branch Registers of Members and Warranholders will be closed from 18th August, 2004 to 24th August, 2004 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the 2004 Annual General Meeting, all transfer documents accompanied by the relevant share certificates and, in the case of warranholders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. 17th August, 2004.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2004 with those paragraphs of the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that the Independent Non-Executive Directors of the Company were appointed without specific term as they were subject to retirement by rotation in accordance with the Bye-laws of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st March, 2004, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

To comply with the revised Code of Best Practice, an audit committee was set up in March 1999 comprising two Independent Non-Executive Directors of the Company, namely Messrs. Lai Man To and Wang Tiao Chun. Their principal duties are to review the financial reports and internal control of the Group.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Culturecom Holdings Limited
Cheung Wai Tung
Chairman

Hong Kong, 22nd July, 2004

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. Henry Chang Manayan, Mr. Wan Xiaolin (all being executive Directors); and Mr. Lai Man To, Mr. Wang Tiao Chun and Ms. Juliet Wu (all being independent non-executive Directors.)

** For identification only*

Please also refer to the published version of this announcement in The Standard.