



CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 343)

(Warrant Code: 2306)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

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 30th September, 2004 together with comparative figures for the corresponding period of 2003 are as follows:

Condensed Consolidated Income Statement

		Six months ended 30th September,	
	Notes	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	3	22,755	19,838
Cost of sales		<u>(17,575)</u>	<u>(15,363)</u>
Gross profit		5,180	4,475
Other revenue		2,881	2,542
Administrative expenses		(36,561)	(30,491)
Unrealized (loss) gain on investments in securities		(38,882)	16,410
Amortization of development costs		(5,624)	(9,105)
Research and development expenditures		<u>(384)</u>	<u>(402)</u>
Loss from operations	4	(73,390)	(16,571)
Finance costs		(5)	(5)
Share of results of associates		(3,025)	(5,735)
Share of results of a jointly controlled entity		(924)	(805)
Impairment loss recognized in respect of goodwill reserve		(3,000)	—
Loss on deemed disposal of associates		<u>—</u>	<u>(1,333)</u>
Loss before taxation		(80,344)	(24,449)
Taxation	5	<u>—</u>	<u>(1)</u>
Loss for the period		<u>(80,344)</u>	<u>(24,450)</u>
Loss per share – basic and diluted	6	<u>(2.41) cents</u>	<u>(0.81) cents</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements should be read in conjunction with the 2003/2004 annual financial statements.

2. Principal Accounting Policies

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st March 2004.

3. Business and Geographical Segments

Business Segments

Income statement for the period ended 30th September

	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>22,581</u>	<u>174</u>	<u>-</u>	<u>22,755</u>
Segment results	<u>2,584</u>	<u>(17,633)</u>	<u>(40,272)</u>	<u>(55,321)</u>
Unallocated corporate expenses				<u>(18,069)</u>
Loss from operations				<u>(73,390)</u>
Finance costs				(5)
Share of result of associates	-	(3,025)	-	(3,025)
Share of result of a jointly controlled entity	-	(924)	-	(924)
Impairment loss in respect of goodwill reserve	-	(3,000)	-	(3,000)
Loss before taxation				<u>(80,344)</u>
Taxation				-
Net loss for the period				<u>(80,344)</u>
2003				
Turnover	<u>18,596</u>	<u>1,242</u>	<u>-</u>	<u>19,838</u>
Segment results	<u>1,801</u>	<u>(13,510)</u>	<u>10,376</u>	(1,333)
Unallocated corporate expenses				<u>(15,238)</u>
Loss from operations				<u>(16,571)</u>
Finance costs				(5)
Share of result of associates	-	(5,735)	-	(5,735)
Share of result of a jointly controlled entity	-	(805)	-	(805)
Loss on deemed disposal of associates	-	(1,333)	-	(1,333)
Loss before taxation				<u>(24,449)</u>
Taxation				(1)
Net loss for the period				<u>(24,450)</u>

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 loss to operations by location of markets, irrespective of the origin of the goods/services:

	Turnover		Loss from operation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	22,631	19,687	(67,473)	(10,925)
PRC	124	151	(5,917)	(5,646)
	<u>22,755</u>	<u>19,838</u>	<u>(73,390)</u>	<u>(16,571)</u>

4. Loss from Operations

	Six months ended 30th September,	
	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	4,107	4,711
Bank interest income	<u>(165)</u>	<u>(202)</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

6. Loss per share

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$80,344,000 (2003: HK\$24,450,000) and the weighted average number of 3,333,928,137 (2003: 3,027,233,959) ordinary shares in issue during the period.

The computation of diluted loss per share for the periods ended 30th September, 2004 and 2003 does not assume the exercise of the Company's outstanding share options and warrants since their exercise would reduce net loss per share.

Dilutive loss per share for the period is not shown as exercise of outstanding share options granted and warrants issued by the Company would have an anti-dilutive effect on the loss per share for the period.

INTERIM DIVIDEND

The Board of Directors of the Company has resolved not to declare an interim dividend for the six months ended 30th September, 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's overall turnover for the period ended 30th September, 2004 increased approximately by 15% to approximately HK\$22,755,000 over last period, of which approximately HK\$22,581,000 and HK\$174,000 (2003: HK\$18,596,000 and HK\$1,242,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the period ended 30th September, 2004, the Group's consolidated net loss attributable to shareholders increased to approximately HK\$80,344,000 as compared to that of the last period. The loss per share for the period was HK2.41 cents (2003: HK0.81 cents). The increase in loss for the period was due to that:

- (i) marketing and promotional expenses for the group's information technology products were increased by approximately HK\$3,900,000 over the previous period;
- (ii) an unrealized loss on investment in securities of approximately HK\$38,882,000 while it was an unrealized gain of approximately HK\$16,410,000 in previous period; and
- (iii) due to continuous losses incurred by an associated company, an impairment loss of goodwill reserve of HK\$3,000,000 was recognized in current period.

The Directors believe that the loss for the consecutive financial periods will be improved once when the sales revenue in respect of V-Dragon products and eTown computers is recognized upon the delivery of products in the coming year.

At 30th September, 2004, the Group's net asset value was HK\$317,028,000 and net asset value per weighted average number of 3,333,928,137 shares of the Company was approximately HK\$0.10 (2003: HK\$0.12).

Liquidity and Financial Resources

As at 30th September, 2004, the Group had bank and cash balances in aggregate of approximately HK\$21,833,000 and short-term listed securities of approximately HK\$26,020,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30th September, 2004, the Group's total liabilities amounted to approximately HK\$25,453,000, representing approximately 8% (2003: 8%) to the shareholders' equity. There was no outstanding bank loan as at 30th September, 2004.

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 30th September, 2004, accumulated costs incurred for the development of Chinese language computer operating system, Chinese single chip system, Chinese electronic books and other related application software less accumulated amortization amounted approximately to HK\$43,385,000 (2003: HK\$52,545,000). 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 period ended 30th September, 2004, the amortization of development cost amounted to HK\$5,624,000 (2003: HK\$9,105,000). In addition, research and development expenditures incurred directly as expenses during the period amounted to HK\$384,000 (2003: HK\$402,000).

Employment and Remuneration Policies

As at 30th September, 2004, the Group had a total of 128 employees of which 73 are based in Hong Kong, 52 in Macau and 3 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$11,420,000 (2003: HK\$13,216,000). Remuneration packages are maintained at competitive level and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.

Business Review

Culturecom Group has been heading in the direction of development R&D of Chinese Linux technologies, including (1) Chinese Character Generating Engine (CCGE), (2) Chinese Voice Engine (CVE) and Conceptual Judgment System Technology and (3) the related Linux software technologies, such as Midori Linux embedded operating system and Red Office. Our efforts in the R&D of these three spheres have achieved significant results, which have found favor in the eyes of and are adopted by certain technological companies, like IBM, IT companies of the V-Dragon Industry Alliance and others. Based on this core technology, we have developed various Chinese IT products and applications and have marketed them all in succession. Besides, we have adopted the marketing strategy of “eTown (Digital web-town)” that targets the market of first-time computer users of 1.2 billion population in China to establish an eTown community.

Technological Business Development

The V-Dragon 3210 Processor, based on the Group’s CCGE and IBM’s PowerPC Technology, has completed its related mother-board design and accessory software development and has been marketed for use in the embedded system products. Among them, the designing plan for mother-board of Tax Terminal/POS Machine has passed China’s technological examination and verification. Presently, the Chinese Government is implementing the tax terminal project nationwide, which has entered its tender invitation stage. As our mother-board design has been agreed to adopt by a number of manufacturers, it is believed that substantial income and profits will be crystallized in the near future.

The overall operation mode of eTown has been formed after the activation of the first eTown in Yun’an county, Guangdong province of China in July 2004. The Municipal Government of Yunfu City, Guangdong province will be scheduled to convene a district-wide eTown mobilization meeting in January 2005, and the installation of eTown for 4 counties and cities and 55 towns within the district is scheduled to be completed by the first quarter of next year. At the “17th Meeting of Mayors of Huaihai Economic Zone, the PRC” held in November this year, it was also duly resolved to adopt the Group’s eTown solution to build a unified information management and development platform for a population of 120,000,000 within the Zone’s 20 cities, 133 counties and 463 towns. Thereafter, with the active support of the Municipal Government of Xuzhou City, the Group has set about the construction of Xuzhou eTown Platform, the first eTown platform in this Zone. In this regard, Xuzhou Government has instructed Xuzhou Telecom Bureau to sign with the Group the “Bundled-Sales Cooperative Agreement in relation to Xuzhou Telecom Broadband Business, eTown Computer and eTown Services”, thereby Xuzhou Telecom Bureau will be able to provide local governments, schools, hospitals, enterprises and families with the Group’s Chinese Linux Computer and eTown Services. Subsequent to the activation of eTown in Xuzhou, Huaihai Economic Zone, the Group will, acting in the spirit of the “summary of minutes of the 17th Meeting of Mayors of Huaihai Economic Zone, the PRC”, continue to co-operate with the governments of all tiers within the Zone to complete zone-wide coverage of eTown services within the next two years.

On the other hand, the Group has been negotiating with key agency of China’s central government to initiate nation-wide construction work of eTown, and the next planned districts will be the Three Provinces in Northeast, the northwest areas, the Central China Economic District, the Economic Districts of Fujian, Zhejiang, Henan and Jiangxi and the Economic Districts of Sichuan, Shanxi, Gansu, Ningxia and etc. The Group believes that the advancement of the eTown marketing strategy will bring a considerable income and profits for the Group itself.

Red Office developed by the Group launched its latest version in June this year and was well received and purchased by the Beijing Municipal Government and other local governments following the purchase bid one after another, such as Shanxi Provincial Government and Hunan Provincial Government. As the Chinese Government tends to use software that possesses self-owned copyright of intellectual properties and open source solution, the Group believes that Red Office will account for a notable share in the future purchases from the Chinese Government.

The Group also made use of the Chinese Character DNA technology to successfully complete the R&D of CVE by the end of this year, and planned to develop jointly with IBM the world's first new-generation "Chinese Smart Computer Chip" that has voice processing capability. Such smart chip features the function of having a computer endowed with the capability to "hear, speak, comprehend and judge", and to enable the user interacting with the computer itself by means of natural language, spurring on a trend of application R&D of new-generation domestic intelligent home appliances. On the occasion, man and machine may communicate with each other through natural conversation, breaking through the restrictions associated with the use of key-board, hand-writing pad and other input methods, and enabling a 'serving the people' application status of the computer.

Comic Business

Comic business has undergone 21% growth after economic recovery of both Hong Kong and Asian markets. However, the future growth momentum will rely on development of new business and new market. By the first half of year 2004/2005, comic department of the Group has signed content distributionship agreement with over 10 major mobile phone service providers (SPs) in China with their total register members amounted to more than 500 million.

Building up comic content based value added service platform on mobile phone, PC and TV channel is the focus of the year. For the licensing business of multi-media products, we licensed our comic title "Chinese Hero" to TV producers to produce two series of TV opera in 2004 and 2005 respectively. Shooting of the first episode already started by October. In addition, "Dragon Tiger Hero" is licensed to produce movie and is scheduled to be on screen by summer of 2005. Besides, more than 20 comic titles have been licensed to be published in China by 2005 and 2006.

Prospects

Cuturecom Group will carry through the above development strategy, utilizing developed technologies while collaborating unceasingly with friendly enterprises for further co-operation and promotion, in order to produce more fore-front products that fit in with the emerging need of eTown community. Meantime, the Group will, in addition to consolidating its success in Yun'an and Yunfu District and Huaihai Economic Zone that accounts for 10% of the total population of China, proactively expand the Group's eTown project into other areas of China. The Group will focus on the new first time computer users market of 1.2 billion to build eTown information infrastructure and eTown community. We are much confident that the Group has entered its harvest period and our R&D fruits will dominate the market in the short run.

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 30th September, 2004.

AUDIT COMMITTEE

The Audit Committee 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 30th September, 2004.

CODE OF BEST PRACTICE

The Company has complied throughout the six months ended 30th September, 2004, with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on 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.

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 in force prior to 31st March, 2004, which remain applicable to interim results announcement in respect of accounting period commencing before 1st July, 2004 under the transitional arrangement, will be published on the website of the Stock Exchange in due course.

By Order of the Board
Cheung Wai Tung
Chairman

Hong Kong, 17th December, 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, Mr. Joseph Lee Chennault (all being independent non-executive Directors).

** For identification only*

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