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## **CULTURECOM HOLDINGS LIMITED**

**文化傳信集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 343)

### **PLACING OF CONVERTIBLE BONDS AND RESUMPTION OF TRADING**

**PLACING AGENT**



**KINGSTON SECURITIES LIMITED**

The Directors are pleased to announce that, the Company and the Placing Agent entered into the CB Placing Agreement on 19 June 2006 pursuant to which the Placing Agent agreed to place, on a best effort basis, up to an aggregate principal amount of HK\$36 million Tranche 1 Convertible Bonds.

The Company may at its option, by written notice to the respective holders of the Tranche 1 Convertible Bonds, require the holders of the Tranche 1 Convertible Bonds (irrespective of whether the Tranche 1 Convertible Bonds have been converted into Conversion Shares or not) to subscribe for the Tranche 2 Convertible Bonds in full up to the principal amount of the Tranche 1 Convertible Bonds held by the respective holders, at any time during the period commencing from the date of issue of the Tranche 1 Convertible Bonds and ending on the date falling six months from the maturity date of the Tranche 1 Convertible Bonds.

Based upon the initial conversion price of HK\$0.10 per Conversion Share, a total of 720,000,000 Conversion Shares would fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds. Such 720,000,000 Conversion Shares represent approximately 19.28% of the existing issued share capital of the Company as at the date of this announcement and will represent approximately 16.17% of the issued share capital of the Company as enlarged by the allotment and issue of such Conversion Shares.

The Placing Agent and the Tranche 1 CB Subscribers and their respective ultimate beneficial owners, if applicable, are and/or will be independent of and not connected with, the directors, chief executive and substantial shareholder of the Company and any of its subsidiaries, or an associate of any of them.

Completion of the Placing is conditional upon fulfillment of the conditions listed below.

The Conversion Shares will be issued under the general mandate to allot, issue and deal with new Shares granted to the Directors at the annual general meeting of the Company held on 23 August 2005.

Trading in the Shares has been suspended with effect from 9:30 a.m. on 19 June 2006 pending the issue of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 22 June 2006.

#### **THE CB PLACING AGREEMENT**

##### **Date**

The Directors are pleased to announce that, the Company and the Placing Agent entered into the CB Placing Agreement on 19 June 2006 pursuant to which the Placing Agent agreed to place, on a best effort basis, up to an aggregate principal amount of HK\$36 million Tranche 1 Convertible Bonds.

##### **Issuer**

Culturecom Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange.

**Placing Agent**

Kingston Securities Limited. To the best knowledge of the Directors, the Placing Agent and its ultimate beneficial owners are third parties independent of, and not connected with, the directors, chief executive and substantial shareholder of the Company and any of its subsidiaries, or an associate of any of them.

**Subscribers of the Tranche 1 Convertible Bonds**

Pursuant to the terms of the CB Placing Agreement, there will be not less than six subscribers who will be third parties independent of, and not connected with, the directors, chief executive and substantial shareholder of the Company and any of its subsidiaries, or an associate of any of them.

**Principal terms of the Convertible Bonds****Principal amount:**

Up to HK\$72 million Convertible Bonds, and will be divided into two equal tranches: Tranche 1 Convertible Bonds of up to HK\$36 million due 2007 and Tranche 2 Convertible Bonds of up to HK\$36 million due 2007/2008.

The Company may at its option, by written notice to the respective holders of the Tranche 1 Convertible Bonds, require the holders of the Tranche 1 Convertible Bonds as registered in the register of Bondholders maintained by the Company (irrespective of whether the Tranche 1 Convertible Bonds have been converted into Conversion Shares or not) to subscribe for the Tranche 2 Convertible Bonds in full and at the same time up to the principal amount of the Tranche 1 Convertible Bonds held by the respective holders, at any time during the period commencing from the date of issue of the Tranche 1 Convertible Bonds and ending on the date falling six months from the maturity date of the Tranche 1 Convertible Bonds. In other words, when the Company has exercised such option to call for subscription for the Tranche 2 Convertible Bonds, any successor in title to the Tranche 1 Convertible Bonds, so long as it/she/he is registered in the register of Bondholders as holder of the Tranche 1 Convertible Bonds, shall be obliged to subscribe for the Tranche 2 Convertible Bonds even though it/she/he has exercised the conversion rights attaching to the Convertible Bonds before such option is exercised by the Company.

**Maturity date:**

One year from the date of issue of the Convertible Bonds. The Convertible Bonds cannot be redeemed in cash during the tenures of the Convertible Bonds by either the Company or the holder of the Convertible Bonds but will be automatically converted into Conversion Shares on maturity.

**Conversion period:**

At the option of the holders of the Convertible Bonds, the Convertible Bonds can be converted into Conversion Shares at any time and from time to time during the tenure of the Convertible Bonds. However, the Company may, by written notice to the holders of the Convertible Bonds, require the holders of the Convertible Bonds to convert the Convertible Bonds into Conversion Shares at any time during the period commencing from the expiry of six months from the date of issue of the Convertible Bonds up to and including the maturity date of the Convertible Bonds. All outstanding Convertible Bonds shall be automatically converted into Conversion Shares on maturity.

**Interest:**

The Convertible Bonds shall bear interest at the rate equivalent to the best lending rate for Hong Kong dollar as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited minus 3%.

Interest accruing under the Convertible Bonds is payable semi-annually in arrears on 31 March and 30 September in each year.

**Security:**

The Convertible Bonds will be unsecured.

**Initial conversion price:**

At the option of the holders of the Convertible Bonds, the Convertible Bonds can be converted into the Conversion Shares at the initial conversion price of HK\$0.10 per Share (subject to adjustment).

The initial conversion price was determined on an arm's length basis respectively between the Company and the Placing Agent, with reference to, among other things, the performance of the Share price on the Stock Exchange.

The initial conversion price will be subject to adjustments for, amongst other things, consolidations or subdivisions of Shares, capital distributions, bonus issues, rights issues and other usual events which may have a dilution effect on the Conversion Shares to be allotted and issued to the holders of the Convertible Bonds upon the exercise of the conversion rights attaching to the Convertible Bonds.

The initial conversion price of HK\$0.10 per Share represents: (i) a premium of approximately 6.38% over the closing price of HK\$0.094 per Share as quoted on the Stock Exchange on 16 June 2006, being the Last Trading Day; (ii) a premium of approximately 8.70% over the average closing price of the Shares of HK\$0.092 per Share as quoted on the Stock Exchange for the five trading-day period up to and including the Last Trading Date; (iii) a premium of approximately 2.04% over the average closing price of the Shares of HK\$0.098 per Share as quoted on the Stock Exchange for the ten trading-day period up to and including the Last Trading Day; and (iv) a premium of approximately 14.94% over the net asset value per Share of approximately HK\$0.087 based on the consolidated net asset value of the Company as at 31 March 2005 as shown in its audited financial statements for the year ended on that date.

**Transferability:** With the prior notification to the Company, the Convertible Bonds (or any part thereof) may be transferred or assigned by the holders of the Convertible Bonds to any party other than any person who is connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries, or an associate of any of them.

**Listing:** No part of the Convertible Bonds is and/or will be listed or dealt in on any stock exchange.

### REASONS FOR THE PLACING

The Directors consider that the Placing will enable the Group to raise further equity capital. The issue of Convertible Bonds in two tranches will also provide the Company with flexibility to raise funds according to the needs of the Group in future.

The net proceeds of the issue of the Tranche 1 Convertible Bonds are expected to be approximately HK\$34.8 million. It is currently intended that such amount will be used as general working capital purposes, particularly for the administration expenses and daily operation needs.

The Directors consider that the terms of the CB Placing Agreement, which were arrived at after arm's length negotiations between the Company and the Placing Agent, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### Conditions precedent of the Placing

The obligations of the Placing Agent under the CB Placing Agreement is conditional upon the following conditions being satisfied at or before 5:00 p.m. on 31 July 2006 (or such later time and date as the Placing Agent and the Company shall agree in writing):

- the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares falling to be issued on the exercise of the conversion rights attaching to the Convertible Bonds either unconditionally or subject to conditions to which the Placing Agent may accept;
- the Bermuda Monetary Authority granting its permission for the issue of the Convertible Bonds and the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds; and
- no event having occurred or occurring which would constitute an event of default or a potential event of default (both terms as defined in the instrument constituting the Convertible Bonds) had the Convertible Bonds been issued.

### Completion of the CB Placing Agreement

Completion of the CB Placing Agreement is expected to take place on the second business day after the conditions precedent of the Placing have been fulfilled (or such later time and date as the Placing Agent and the Company shall agree in writing).

### Application for listing

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. Dealings in the Conversion Shares will be subject to the payment of stamp duty in Hong Kong.

### EFFECT ON SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company and the shareholding structure of the Company immediately upon issue of the Conversion Shares under each of the Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (assuming the Company has exercised the call option to require the holders of the Tranche 1 Convertible Bonds to subscribe for the Tranche 2 Convertible Bonds) are set out as below:

Name of Shareholders	Shareholding as at the date of this announcement		Shareholding immediately upon completion of the Placing and after full conversion of the Tranche 1 Convertible Bonds		Shareholding immediately upon completion of the Placing and full conversion of the Tranche 1 and Tranche 2 Convertible Bonds	
		%		%		%
Mr. Chu Bong Foo (Beneficial owner) (Note 5)	220,180,000	5.90	220,180,000	5.38	220,180,000	4.94
Bay-Club Enterprises Inc. (Note 1)	122,872,000	3.29	122,872,000	3.00	122,872,000	2.76
Mr. Henry Chang Manayan (Note 2)	2,000,000	0.05	2,000,000	0.05	2,000,000	0.04
Mr. Wan Xiaolin (Note 3)	500,000	0.01	500,000	0.01	500,000	0.01
Convertible Bonds subscribers (Note 4)	-	-	360,000,000	8.79	720,000,000	16.17
Public Shareholders	3,388,427,642	90.75	3,388,427,642	82.77	3,388,427,642	76.08
<b>Total</b>	<b>3,733,979,642</b>	<b>100</b>	<b>4,093,979,642</b>	<b>100</b>	<b>4,453,979,642</b>	<b>100</b>

Notes:

1. 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.
2. Mr. Henry Chang Manayan is one of the executive Directors.
3. Mr. Wan Xiaolin is one of the executive Directors.
4. Such Conversion Shares would fall to be allotted and issued upon the exercise of the conversion rights attaching to the respective tranches of Convertible Bonds or upon the maturity date of the respective tranches of Convertible Bonds.
5. Mr. Chu Bong Foo is vice-chairman and one of the executive Directors.

#### **General mandate**

The Conversion Shares will be issued under the general mandate to allot, issue and deal with new Shares granted to the Directors at the annual general meeting of the Company held on 23 August 2005. No Share has been issued under the general mandate as at the date of this announcement. The Company confirmed that other than the CB Placing Agreement, such general mandate has not been utilised as at the date of this announcement and no Shares have been repurchased by the Company within 30 days prior to the date of this announcement.

Based on the initial conversion price of HK\$0.10 per Conversion Share, a total of 720,000,000 Conversion Shares would fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds. Such 720,000,000 Conversion Shares represent approximately 19.28% of the existing issued share capital of the Company as at the date of this announcement and will represent approximately 16.17% of the issued share capital of the Company as enlarged by the allotment and issue of such Conversion Shares.

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all Shares in issue at the date of allotment and issue of such Conversion Shares.

#### **GENERAL**

The Group is principally engaged in, among other things, investment holdings, development and sales of Chinese operating systems, processors, eTextbooks and Linux-based Chinese computer software.

Further announcement will be made by the Company if the Tranche 2 Convertible Bonds are issued.

The following table summaries the capital raising activity of the Company for the 12 months immediately before the date of this announcement:

<b>Date of announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of net proceeds</b>	<b>Actual use of net proceeds as at the date of this announcement</b>
19 August 2005	Private placing of warrants	Approximately HK\$24.1 million	General working capital for advertising and promotion of the Group's technology products and general administration expenses of the Group	(i) Advertising and promotion of the Group's technology products – approximately HK\$4.5 million  (ii) General administration expenses – approximately HK\$19.6 million

## SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 19 June 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 22 June 2006.

## TERMS AND DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CB Placing Agreement”	a conditional placing agreement entered into between the Company and the Placing Agent dated 19 June 2006 in relation to the Placing
“Company”	Culturecom Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Convertible Bonds”	collectively, the Tranche 1 Convertible Bonds and the Tranche 2 Convertible Bonds
“Conversion Shares”	new Shares falling to be allotted and issued upon exercise of the conversion rights attaching to any of the Convertible Bonds
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Date”	16 June 2006, being the last trading day prior to the suspension of trading in the Shares pending the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placing”	the placing of the Tranche 1 Convertible Bonds by the Placing Agent on a best efforts basis pursuant to the terms of the CB Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	the ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tranche 1 CB Subscribers”	any independent institutional, corporate or individual investor(s) or any of their respective subsidiaries or associates to be procured by the Placing Agent to subscribe for any of the Tranche 1 Convertible Bonds
“Tranche 1 Convertible Bonds”	the convertible bonds up to an aggregate principal amount of HK\$36 million to be issued by the Company to the Tranche 1 CB Subscribers under the CB Placing Agreement
“Tranche 2 Convertible Bonds”	the convertible bonds up to an aggregate principal amount of HK\$36 million to be issued at the option of the Company to the holders of the Tranche 1 Convertible Bonds
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board  
**Culturecom Holdings Limited**  
**Cheung Wai Tung**  
*Chairman*

Hong Kong, 21 June 2006

*As at the date hereof, the Board comprises Mr. Cheung Wai Tung, Mr. Chu Bong Foo, Mr. Henry Chang Manayan, Mr. Wan Xiaolin (all being executive Directors); and Mr. Lai Man To, Mr. Wang Tiao Chun and 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 China Daily.