



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 2006

INTERIM RESULTS

The Board of Directors (the “Directors”) of Culturecom Holdings Limited (the “Company”) is 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 2006 together with comparative figures for the corresponding period of 2005 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTH ENDED 30 SEPTEMBER 2006

		Six months ended 30 September	
	Notes	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	4	26,432	25,458
Cost of sales		(21,619)	(20,047)
Gross profit		4,813	5,411
Other revenue		695	3,365
Administrative expenses		(32,295)	(33,419)
Gain on disposal of subsidiaries		1,726	–
Gain on disposal of associates		1,376	–
Provision for claim		–	(7,500)
Decrease in fair value of held-for-trading investments		(1,482)	(3,930)
Amortisation of development costs		–	(7,291)
Research and development expenditures		–	(2,131)
Finance costs	6	(73)	(1,525)
Allowance for loans to an associate		–	(5,400)
Share of results of associates		(672)	(3,195)
Share of results 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	5	(25,912)	(58,291)
Taxation	7	–	–
Loss for the period		(25,912)	(58,291)
Loss per share – basic and diluted	8	<u>HK(0.68) cents</u>	<u>HK(1.56) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2006

	<i>Notes</i>	30 September 2006 HK\$'000 (unaudited)	31 March 2006 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		28,497	31,305
Prepaid lease payments		24,891	25,059
Investment properties		57,836	57,836
Interests in associates		3,260	3,931
Amounts due from associates		21,739	21,739
Intangible asset – club memberships		1,385	1,385
		<u>137,608</u>	<u>141,255</u>
CURRENT ASSETS			
Inventories		265	143
Trade debtors	9	9,375	6,568
Prepaid lease payments		335	335
Other debtors, deposits and prepayments		10,401	10,227
Amounts due from fellow subsidiaries of an associate		194	–
Amounts due from associates		28,463	30,898
Taxation recoverable		96	96
Held-for-trading investments		18,568	24,552
Bank balances and deposits with other financial institutions		49,030	19,536
		<u>116,727</u>	<u>92,355</u>
CURRENT LIABILITIES			
Trade creditors	10	8,584	7,363
Other creditors and accrued charges		9,695	11,912
Amounts due to fellow subsidiaries of an associate		883	33
Obligation under finance leases – amount due within one year		32	48
		<u>19,194</u>	<u>19,356</u>
NET CURRENT ASSETS		<u>97,533</u>	<u>72,999</u>
TOTAL ASSETS LESS LIABILITIES		<u>235,141</u>	<u>214,254</u>
CAPITAL AND RESERVES			
Share capital		402,398	373,398
Reserves		(176,744)	(162,586)
TOTAL CAPITAL AND RESERVES		<u>225,654</u>	<u>210,812</u>
NON-CURRENT LIABILITIES			
Convertible bonds	11	6,061	–
Obligation under finance leases – amount due after one year		87	103
Deferred tax liabilities		3,339	3,339
		<u>9,487</u>	<u>3,442</u>
		<u>235,141</u>	<u>214,254</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation

The unaudited 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 Rules") 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 unaudited condensed financial statements have been prepared under the historical cost basis, except for investment properties and financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the unaudited condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006 except as described in note 3 below.

3. Application of Hong Kong Financial Reporting Standards

In the current interim period, the Group has applied, for the first time, a number of Standards, Amendments and Interpretations (new "HKFRS"s) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new Standards, Amendment and Interpretations ("INT"s) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standard, Amendment or INTs will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial Instruments: disclosures ¹
HK(IFRIC)-INT 8	Scope of HKFRS ²
HK(IFRIC)-INT 9	Reassessment of embedded derivatives ³
HK(IFRIC)-INT 10	Interim financial reporting and impairment ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

4. Business and Geographical Segments

Business segments

Income statement for the period ended 30 September

2006

Turnover

	Publishing HK\$'000	Chinese infrastructure HK\$'000	Investment HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	23,733	209	2,490	-	26,432
Inter-segment sales	-	-	1,379	(1,379)	-
Total turnover	<u>23,733</u>	<u>209</u>	<u>3,869</u>	<u>(1,379)</u>	<u>26,432</u>
Segment results	<u>1,744</u>	<u>(7,186)</u>	<u>(2,983)</u>		(8,425)
Unallocated corporate expenses					(19,844)
Finance cost					(73)
Share of result of associates					(672)
Gain on disposal of subsidiaries					1,726
Gain on disposal of associates					1,376
Loss before taxation					<u>(25,912)</u>

2005
Turnover

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

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

2006

Turnover

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	26,432	–	–	26,432
Inter-segment sales	1,379	–	(1,379)	–
Total turnover	<u>27,811</u>	<u>–</u>	<u>(1,379)</u>	<u>26,432</u>
Segment results	<u>(27,158)</u>	<u>(1,111)</u>		(28,269)
Finance cost				(73)
Share of result of associates				(672)
Gain on disposal of subsidiaries				1,726
Gain on disposal of associates				1,376
Loss before taxation				<u>(25,912)</u>

2005
Turnover

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

5. Loss Before Taxation

	Six months ended 30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation has been arrived at after charging (crediting):		
Staff costs	8,963	13,795
Recognition of equity-settled share-based payments	11,749	–
Depreciation and amortisation of property, plant and equipment	2,718	2,853
Bank interest income	(243)	(166)
	<u>23,187</u>	<u>16,282</u>

6. Finance Costs

	Six months ended 30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on secured borrowing	–	1,519
Interest on finance lease	7	6
Interest on convertible bonds	66	–
	<u>73</u>	<u>1,525</u>

7. Taxation

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

8. Loss Per Share

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$25,912,000 (2005: HK\$58,291,000) and the weighted average number of 3,809,935,926 (2005: 3,734,669,763) 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, warrants and convertible bonds would reduce loss per share.

9. Trade Debtors

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

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
0 – 60 days	4,499	4,976
61 – 90 days	3,524	228
Over 90 days	1,352	1,364
	<u>9,375</u>	<u>6,568</u>

10. Trade Creditors

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

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
0 – 60 days	3,280	4,229
61 – 90 days	4,472	1,233
Over 90 days	832	1,901
	<u>8,584</u>	<u>7,363</u>

11. Convertible Bonds

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK\$36 million convertible bonds (“Tranche 1 Convertible Bonds”) to be issued by the Company. The Company may at its option, by written notice to the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds (“Tranche 2 Convertible Bonds”) up to an aggregate principal amount of HK\$36 million to be issued by the Company. The net proceeds of issue of the Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively “Convertible Bonds”) is HK\$0.1 per new ordinary share of HK\$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds which were approximately HK\$34.9 million will be used as general working capital.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the Convertible Bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bonds. The residual amount, representing the value of equity conversion component, included in shareholders’ equity in other reserve.

The carrying value of the liability component of the Convertible Bonds at 30 September 2006, which approximately its fair value, is calculated using cash flows discounted at an effective borrowing rate of 8.49% per annum.

As at 30 September 2006, 6 registered holders of HK\$29,000,000 have converted their Convertible Bonds into ordinary shares of the Company.

INTERIM DIVIDEND

The Board of Directors of the Company has resolved not to declare an interim dividend for the six months ended 30 September 2006 (2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 September 2006, the Group’s overall turnover was slightly increased approximately by 4% to approximately HK\$26,432,000 over last period, of which approximately HK\$23,733,000, HK\$209,000 and HK\$2,490,000 (2005: HK\$25,248,000, HK\$210,000 and HK\$: nil) were attributable to our business of comics publication, Chinese information infrastructure and rental income from investment properties respectively. Decrease in turnover of comics publication was mainly resulted from a drop of approximately HK\$1,835,000 in our Japanese comics business for the period.

The Group's consolidated net loss attributable to shareholders decreased approximately by 56% to approximately HK\$25,912,000 as compared to that of the last period. The loss per share for the period was HK0.68 cents (2005: HK1.56 cents). The significant improvement was mainly resulted from the adjustments made to the development plans of our IT core technologies and the related assets investments. As a result, no further research and development expenditure was incurred for the technology projects and certain non-core investments in subsidiaries and associates were disposed during the period. In addition, the effective cost controls implemented by the management resulted in the decrease in total staff costs for the period by approximately 35%. However, due to the adoption of the new HKFRSs "Share-based Payment", the Group recognised the expenses of approximately HK\$11,749,000 in relation to share options granted to employees and consultants of the Group during the period (2005: nil).

At 30 September 2006, the Group's net asset value was HK\$235,141,000 and net asset value per weighted average number of 3,809,935,926 shares of the Company was approximately HK\$0.06 (2005: HK\$0.08).

Convertible Bonds

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK\$36,000,000 convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to require the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK\$36,000,000 to be issued by the Company. The conversion price of Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively "Convertible Bonds") is HK\$0.1 per new ordinary share of HK\$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds were approximately HK\$34,978,000 and will be mainly used as general working capital of the Group. The placing of the Tranche 1 Convertible Bonds was completed on 10 August 2006.

As at 30 September 2006, 6 registered holders of Tranche 1 Convertible Bonds exercised their rights to convert for the Company's shares.

Liquidity and Financial Resources

As at 30 September 2006, the Group had bank and cash balances in aggregate of approximately HK\$49,030,000 and held-for-trading investment of approximately HK\$18,568,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30 September 2006, the Group had a net current asset of approximately HK\$97,533,000 (31 March 2006: HK\$72,999,000) and a current ratio of 6.08 (31 March 2006: 4.77). The Group's total liabilities as at 30 September 2006 amounted to approximately HK\$28,681,000 and represented approximately 12.7% (31 March 2006: 10.81%) 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 proceeds from exercise of warrants and subscription of Convertible Bonds in the future would further strengthen the financial position of the Group.

Employment and Remuneration Policies

As at 30 September 2006, the Group had a total of 86 employees of which 52 are based in Hong Kong, 32 in Macau and 2 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$8,963,000 (2005: HK\$13,795,000). 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

At the beginning of the year 2006, the Group has resolved to give up the acquisition of Crusoe CPU core technology in order to avoid risks, and in turn initiated its reformation on its technological assets. During the first six months of this financial year, the Group has, under the framework of its all-rounded reform, reinforced various resource exploring and expense minimizing measures and adopted various counter strategies. Our ongoing projects are targeted to create shareholders' values, and projects without effective shareholders' returns will be recognized as non-core items. Non-core assets will be ceased, terminated, merged or transferred. The corporate strategy will be adjusted. Preliminary results are reflected in the interim report.

Development of Technology Business

During the past half year, the Group has rearranged the entire direction of technology development, making unprecedented and determined consolidation towards the respective resource allocation ratio of core products and non-core products. Our ongoing projects are targeted at return yield time, and projects without effective shareholders' returns within the later half of the year will be recognized as non-core items. The corporate operation guidelines of non-core assets, including sales, will be handed over to the cooperative partners for follow up actions.

In the past half year, the Group maintained its contact with relevant corporations, institutions and universities regarding the Chinese Character Generating Engine and the related technologies, and sought for every possible opportunity of joint development.

Comics

During the first half of this financial year, comics business including local comics and overseas licensing were developed steadily. However, comic book-letting stores and parallel goods created impacts on our imported Japanese comics business, leading to a drop of 6% in our comics business turnover to approximately HK\$23,733,000 during the year as compared with the corresponding period of last year. The year 2006 is a year when comics make their way to a relatively larger stage of inter-media business. Licensed movies, ancillary online games and mobile games of the comics are gradually completed and launched to the market. The Group is now actively looking for the chances to cooperate with relevant corporations to develop licensed business of animation and comics in the Mainland, and conditioned upon a lower risk exposure, strengthen the revenue contribution of the comics business to the Group. The Group believes that as the multimedia market is heading to its maturity, Culturecom's comics will anticipate a more rapid revenue enhancement in the multimedia area.

Prospects

Looking ahead, the Culturecom Group will adopt a conservative approach, and with all resources in hand we will focus on cooperative development and the establishment of economies of scale, and commit ourselves to create greater shareholders' values. It is believed that the Group will soon develop its characterized potential market

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 2006.

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 2006.

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 2006 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 E.1.2

Under the Code provision E.1.2, the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Cheung Wai Tung was unable to attend the annual general meeting of the Company held on 24 August 2006 as he was on business trip for other important business engagement. However, an Executive Director, present at the annual general meeting who then took the chair of that meeting in accordance with the Bye-Laws of 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 2006.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the website of the Stock Exchange. The interim report for the six months ended 30 September 2006 containing all information required by Appendix 16 of the Listing Rules will be despatched to the shareholders and published on the website of the Stock Exchange in due course.

APPRECIATION

I would like to dedicate sincere gratitude to the Board of Directors, our management and to all our staff for their dedicated efforts over the past half year and to all our customers, suppliers, business partners and our shareholders for their enthusiastic support to the Group.

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

Hong Kong, 19 December 2006

As at the date of this announcement, the Board comprises of Mr. Cheung Wai Tung, Mr. Chu Bong Foo, 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 China Daily.