



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, 2005 together with comparative figures for the corresponding year of 2004 are as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST MARCH

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	2	47,247	40,655
Cost of sales		(37,004)	(31,364)
Gross profit		10,243	9,291
Other operating income		6,994	7,942
Administrative expenses		(81,913)	(64,458)
Amortisation of development costs		(23,818)	(18,706)
Research and development expenditures		(8,819)	(4,815)
Allowances for trade and other debtors		(8,166)	(1,123)
Net unrealised (loss) gain on other investments		(42,324)	15,600
Loss from operations	3	(147,803)	(56,269)
Share of results of associates		(10,034)	(9,514)
Share of result of a jointly controlled entity		(1,526)	(1,136)
Gain on disposal of an associate		–	1,995
Loss on deemed disposal of an associate		–	(1,548)
Finance costs		(9)	(9)
Write back of impairment loss previously recognised in respect of property, plant and equipment		23,000	–

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
Allowances for loans to associates		(5,591)	–
Impairment loss recognised in respect of development costs		(6,700)	–
Impairment loss recognised in respect of goodwill in reserve		(10,777)	(6,000)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity		(3,491)	–
Loss before taxation		<u>(162,931)</u>	<u>(72,481)</u>
Taxation	4	<u>–</u>	<u>–</u>
Loss before minority interests		(162,931)	(72,481)
Minority interests		–	14
Net loss for the year		<u>(162,931)</u>	<u>(72,467)</u>
Loss per share – basic and diluted	5	<u>HK(4.84) cents</u>	<u>HK(2.37) cents</u>

Notes:

1. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “New HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which agreement date is from 1st January, 2005 to 31st March, 2005, therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of other 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 the future as to how the results and financial position are prepared and presented.

2. TURNOVER

Business segments

	Publishing <i>HK\$'000</i>	Chinese information infrastructure <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
2005				
Turnover	<u>47,010</u>	<u>237</u>	<u>-</u>	<u>47,247</u>
Segment results	<u>1,291</u>	<u>(80,862)</u>	<u>(41,113)</u>	(120,684)
Unallocated corporate expenses				<u>(27,119)</u>
Loss from operations				(147,803)
Share of results of associates	-	(4,234)	(5,800)	(10,034)
Share of result of a jointly controlled entity	-	(1,526)	-	(1,526)
Finance costs				(9)
Write back of impairment previously recognised in respect of property, plant and equipment				23,000
Allowance for loans to associates	-	(5,591)	-	(5,591)
Impairment loss recognised in respect of development costs	-	(6,700)	-	(6,700)
Impairment loss recognised in respect of goodwill in reserve	-	(10,777)	-	(10,777)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	-	(3,491)	-	<u>(3,491)</u>
Loss before taxation				(162,931)
Taxation				<u>-</u>
Loss before minority interests				(162,931)
Minority interests				<u>-</u>
Net loss for the year				<u>(162,931)</u>

	Publishing <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 recognised in respect of goodwill in reserve	–	(6,000)	–	(6,000)
Loss before taxation				<u>(72,481)</u>
Taxation				–
Loss before minority interests				<u>(72,481)</u>
Minority interests				14
Net loss for the year				<u><u>(72,467)</u></u>

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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	<u>47,247</u>	40,373	<u>(135,939)</u>	(39,345)
PRC	<u>–</u>	282	<u>(11,864)</u>	(16,924)
	<u><u>47,247</u></u>	<u><u>40,655</u></u>	<u><u>(147,803)</u></u>	<u><u>(56,269)</u></u>

3. LOSS FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Staff and directors' costs	28,518	30,222
Less: Amount capitalised in the development costs	430	5,356
	<u>28,088</u>	<u>24,866</u>
Auditors' remuneration	835	870
Write-down of inventories	14,294	2,500
Depreciation and amortisation	7,422	10,957
Net realised loss (gain) on investments in securities	342	(1,960)
Interest income	(328)	(389)
Dividend income	(82)	(140)
	<u><u> </u></u>	<u><u> </u></u>

4. TAXATION

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

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\$162,931,000 (2004: HK\$72,467,000) and the weighted average number of 3,366,259,000 (2004: 3,058,898,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for both years because the exercise of the Company's outstanding share options and warrants would reduce net loss per share.

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's overall turnover for the year ended 31st March, 2005 increased by 16% to approximately HK\$47,247,000 over last year, of which approximately HK\$47,010,000 and HK\$237,000 (2004: HK\$39,184,000 and HK\$1,471,000) were attributable to our business of comics publication and Chinese information infrastructure respectively.

For the year ended 31st March, 2005, the Group's consolidated net loss attributable to shareholders increased by 125% to approximately HK\$162,931,000 as compared to that of the last year. The loss per share for the year was HK4.84 cents (2004: HK2.37 cents). The analysis of the profit and loss statements is as follows:

(i) *Turnover*

As the publication of some popular Japanese comics, such as "Death Note" received high penetration and sales during the year, turnover of publishing business for the year under review increased by approximately HK\$7,826,000, representing 20%. The technology projects of eTown and eBook recorded sales turnover of approximately HK\$237,000 for the year;

(ii) *Administrative expenses*

The administrative expenses of the Group for the year increased by approximately HK\$17,455,000, representing 27%. The increase mainly representing the marketing and promotion expenses incurred for the Group's technology products in the PRC and inventories written down to net realisable value of the technology products during the year;

(iii) *Research and development*

Following the launch of technology products during the year in the PRC, the amortisation of development costs increased by approximately HK\$5,112,000 and the research and development expenditures charged directly as expenses increased by approximately HK\$4,004,000. In addition, in response to the rapid change of the I.T. environment, an impairment loss in respect of development costs of HK\$6,700,000 (2004: nil) was made for the year.;

(iv) *Net unrealised loss on other investments*

The Group made net unrealised loss on investments in marketable securities of approximately HK\$42,324,000 (2004: net unrealised profit of approximately HK\$15,600,000). As a result, the loss from operation for the year increased by approximately HK\$57,924,000;

(v) *Write back of impairment loss previously recognised in respect of property*

With reference to the open market value of the property valued by an independent professional valuer, an impairment loss previously recognised of HK\$23,000,000 was written back by the Group;

(vi) *Allowances and provision*

During the year, allowances of approximately HK\$5,591,000 (2004: nil) for loans to two associated companies of the Group were made due to the continuous losses incurred by the associated companies and allowances of approximately HK\$8,166,000 (2004: HK\$1,123,000) were made for long outstanding trade and other debtors; and

(vii) *Impairment losses on investments in associates and jointly controlled entity*

Due to the continuous losses incurred by an associated company, additional impairment loss was made in respect of goodwill in reserve of HK\$10,777,000 (2004: HK\$6,000,000) for the year. The continuous losses incurred by a jointly controlled entity in the PRC resulting in an impairment loss in respect of premium on its formation of HK\$3,491,000 (2004: nil) for the year.

The Directors are still optimistic about the prospects of the Group's business and believe that financial performance of the Group for the coming years will be improved once when the revenue from the Group's technology projects is generated.

At 31st March, 2005, the Group's net tangible asset value was HK\$300,111,000 and net asset value per weighted average number of 3,366,259,000 shares of the Company was approximately HK\$0.09 (2004: HK\$0.13).

Warrants

On 6th June, 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 8th July, 2003 to 7th July, 2005, both days inclusive. The placing of warrants was completed on 4th July, 2003.

During the financial year, 70,580,000 (2004: 109,720,000) warrants had been exercised and the Company received the net proceeds of approximately HK\$11,646,000 from the exercise of the warrants.

Subsequent to the balance sheet date and 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\$40,817,000 from the exercise of the warrants.

Purchase of Assets and Licence of Technology

On 27th 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. Under the Listing Rules, the agreements together constitute a major transaction of the Company and shall be approved by shareholders. By the date hereof, the Company needs time to collate, finalise and include necessary financial information in the relevant circular. The Company has applied to the Stock Exchange to extend time to despatch the circular on or before 9th August, 2005.

Convertible Bonds

On 2nd 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 will carry a right to convert into new shares of the Company at the conversion price of, subject to adjustment, HK\$0.6 per share. Accordingly, 500,000,000 shares will be allotted and issued upon full conversion of the convertible bonds. The net proceeds of the placing of the convertible bonds will be firstly applied towards the repayment of the short term loans from the Chairman of the Group and an independent third party, and then retained as the working capital of the Group. As at the date of announcement, the placing of the convertible bonds had not yet been completed and is still proceeding.

Liquidity and Financial Resources

As at 31st March, 2005, the Group had bank and cash balances in aggregate of approximately HK\$15,194,000 and marketable securities of approximately HK\$23,036,000. The Group has no significant exposure to foreign exchange rate fluctuations.

As at 31st March, 2005, the Group's total liabilities amounted to HK\$24,325,000 and represented approximately 8% (2004: 6%) to the shareholders' equity.

In June, 2005, the Group obtained an unsecured, interest-free loan of HK\$29,000,000 from the Chairman of the Group and a secured, interest bearing, fixed short term loan of HK\$70,000,000 from an independent third party. The loans were used as part of the balance payment of the consideration for the purchase of assets and the licence fee payable under the licence of technology. It was intended that the loans would be repay by the net proceeds to be received from the placing of convertible bonds of the Company.

In view of the above, the Directors believes that the Group will have sufficient liquidity to finance its daily operation, and the net proceeds from issue of convertible bonds of the Company in the future would further strengthen the financial position of the Group.

Development Costs of I.T. Projects

As at 31st March, 2005, accumulated costs incurred for the development of Chinese language computer operating system, Chinese processors, Chinese electronic books and other Linux-based Chinese computer software amounted approximately to HK\$112,961,000 (2004: HK\$95,045,000) and the net book value was HK\$32,955,000 (2004: HK\$45,557,000). These development costs were 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, 2005, the amortization of development costs amounted to approximately HK\$23,818,000 (2004: HK\$18,706,000). In additions, research and development expenditures charged directly as expenses during the year amounted to approximately HK\$8,819,000 (2004: HK\$4,815,000).

Employment and Remuneration Policies

As at 31st March, 2005, the Group had a total of 139 employees, of which 70 are based in Hong Kong, 56 are based in Macau and 13 are based in the PRC (2004: 89; 28 and 8 respectively). Total staff costs incurred during the year amounted to approximately HK\$28,518,000 (2004: HK\$30,222,000). 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

Core Technology Business

Based on its wholly-owned subsidiary, Culture.com Technology Limited, Culturecom Group has gone through all kinds of challenges to finally accomplish its mission to establish an industrial foundation and framework for Chinese Computing. The likely misunderstanding by the investing public towards the Group over the past years reminded the management the importance of mutual communications; the invaluable comments were meticulously reported and discussed within the management. The patron support and patience of dear investors and shareholders are deemed to be rewarded as the foundation has been built.

To develop a product or some technological knowhow usually take a path that normally goes through processes of focus and in-depth drilling until product roll-out. That is the typical way of trend-follower instead of trend-setter. Culturecom takes the latter which is a high risk high return method. Superb result is likely to envisage after years of development at

Culturecom. A lucrative market is materialised upon the ability to grasp the mass market; to enter into the mass market requires the complete preparation of useful IT foundation. The attributes are largely determined by the following factors:

- (i) The “Embedded Chinese Character Generating Engine”(CCG), the essence of the thirty years’ focused and painstaking labor of Mr. Chu Bong Foo, Vice-Chairman of the Group. This technology has revolutionized the cumbersome traditional Chinese print-edit method dated back to more than centuries ago. It is the embedded technology that heralds a small and exquisite mobile epoch for computers, and also the key IP technology that enhances the CPU functions in tackling Chinese;
- (ii) CPU core technology, the indispensable part to enhance the development of mass market computer. Culturecom has been successful in the past years to integrate CCG and CPU core technology to develop the “V-Dragon 1610 CPU”. Subsequently, it has cooperated with IBM to launch the “V-Dragon 3210 CPU”, forming the V-Dragon series brandname. V-Dragon series will be widely used in all kinds of Chinese embedded devices such as the e-textbook, Tax/POS terminal and Chinese network computer. In the future, the Group will utilize other CPU technology to develop more “V-Dragon Series” CPU while possessing its own mass market CPU core technology;
- (iii) The implementation of Linux Operation System, the must of promotion of mass market computer. The Group has been smoothly cooperating with the Chinese Academy of Sciences to launch “Red Office 2000 Linux”. The product has been gathering momentum since launching to secure contracts from municipal governments, provincial governments, and autonomous region governments nationwide. Besides, the Company has cooperated with Transmeta, a hi-tech company based in Santa Clara, CA of USA, to secure the development and management right of the Midori Linux international public platform. The Midori Linux Operation System has become the internationally renowned embedded Linux system platform used by many leading international companies to develop different embedded products, such as the built-in software of Japan NTT DoCoMo communication products; and
- (iv) The establishment of a chained component and peripheral support network the last key factor to pave the way for a successful mass market product launching. The Group has allied with IBM to complete the industrial mother-board and respective menu of “V-Dragon 3210 CPU”. This mother-board is the superb solution of internet accessible terminals and tax-terminal. In the age

convergence to address the needs of getting mobile and to conform the most commonly adopted IT platform of x86, Culturecom has well prepared to integrate. The mobile area, based on the newly acquiring technology, is our near focus marketing area. We anticipate lucrative return from this area in the near future.

The above development aims at addressing the three issues in relation to the construction of Chinese computing foundation:

- (i) How to establish a Chinese embedded CPU core mechanism for the rapid popularization of computers in the PRC, especially the mobile communication computers;
- (ii) How to establish a mass market IT industry based on Linux and compatible to Windows; and
- (iii) How to rapidly establish an autonomous national industry chain based on the existing x86 industry standard to integrate the existing and comprehensive industrial support chain system including parts and software.

In our age characterized by integration of mainstream and non-mainstream computer mechanism and convergence of computer and communication, Culturecom has virtually finished its construction of the full foundation of an IT autonomous computer industry in the PRC. As such, Culturecom will be able to provide core solutions applicable to computers and communication products and compatible to mainstream x86 computer industry, bringing about notable revenue for the Group.

Comic Business

During the year, our imported Japanese titles experienced strong growth with new books such as “Death Note” received high penetration and sales. Local comics remained stable growth together with economic recovery of the overall market and our momentum came from new business of electronic media such as licensing to movie, TV dramas and online game.

From 2005 onwards, over 10 major classic local comic titles will celebrate special anniversary since they were first published. Therefore, Culturecom is going to launch a new platform of multi-media product mix to revitalize the comic classics. In addition, online e-comic business in China is on the track with solid strategic alliance with major service providers such as Tencent QQ and Netease. Market diversification of value-added services will expand to major economies in Asia pacific region within the second half of 2005.

Prospects

In the previous year, the Group has adopted a sound and steady financial principle to accelerate amortization, tighten up capital expenditure and maintain zero long term liabilities. For the past six years, the growth of

Culturecom has been centered on Culture.com Technology Limited according to its unshakable development concept, and this has resulted in the emergence of its enormous technological values. Nowadays, it has become an IT enterprise with the industrial core value such that V-Dragon Series products and brands were formed. Along with the further development of the market, there will be more products launched under brand name V-Dragon, making substantial revenue contribution to the Group. Besides, possessing full IT industry fundamental conditions, it will surely become a major enterprise that controls the pattern of the Chinese communication computer industry, and the growth in it will turn it into a pillar enterprise for the whole Culturecom Group, bringing about immense interests for the whole group.

CLOSURE OF REGISTERS OF MEMBERS

The principal Register of Members and the branch Registers of Members will be closed from 17th August, 2005 to 23rd August, 2005 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the 2005 Annual General Meeting, all transfer documents accompanied by the relevant share certificates 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. 16th August, 2005.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2005 with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force prior to 1st January, 2005 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, 2005, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

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 audited financial statements for the year ended 31st March, 2005.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All information as required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules in force prior to 31st March, 2004, which remain applicable to 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.

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

Hong Kong, 22nd July, 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. 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 only*

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