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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)

DISCLOSEABLE TRANSACTION

ISSUE OF SHARES IN CULTURE.COM TECHNOLOGY LIMITED

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Announcement”	the announcement of the Company dated 2 September 2005 in respect of the Subscription
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Company”	Culturecom Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreement
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Consideration”	the lower of the sum of HK\$73,500,000 or 10% of the Valuation Value
“Consideration Shares”	such number of new ordinary shares of HK\$0.01 each in the share capital of REXCAPITAL International Holdings Limited to be issued in favour of Culture.com Technology or its nominee in satisfaction of the Consideration at the issue price of HK\$0.15 per share, credited as fully paid
“Culture.com Technology”	Culture.com Technology Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries (as defined in section 2 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a party which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates and are not connected persons of the Company and its subsidiaries

DEFINITIONS

“Latest Practicable Date”	20 September 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chu”	Mr. Chu Bong Foo, the Vice-Chairman of the Company
“Shareholders”	holders of shares of HK\$0.10 each in the issued share capital of the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	REXCAPITAL International Holdings Limited, a company incorporated in Bermuda and which issued shares are listed on the Stock Exchange (stock code: 155)
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement entered into between Culture.com Technology, as issuer, and the Subscriber, as subscriber, on 30 August 2005 in relation to the Subscription
“Subscription Shares”	100 new shares of HK\$1.00 each in the share capital of Culture.com Technology, representing 10% of the enlarged issued share capital of Culture.com Technology at Completion
“Valuation Value”	the fair value of Culture.com Technology as at the date of the Subscription Agreement stated in the report to be issued by an independent professional consultant to be appointed by the Subscriber, which value shall exclude (i) the value of the Subscription Shares and the Consideration Shares and (ii) the value of the assets and licences to be acquired under the transactions referred to in the announcement of the Company dated 7 June 2005
“%”	per cent.

LETTER FROM THE BOARD



CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 343)

Board of Directors

Executive Directors

Mr. Cheung Wai Tung (*Chairman*)

Mr. Chu Bong Foo (*Vice-Chairman*)

Mr. Cheung Kam Shing, Terry (*Managing Director*)

Mr. Henry Chang Manayan

Mr. Wan Xiaolin

Independent non-executive Directors

Mr. Lai Man To

Mr. Wang Tiao Chun

Mr. Joseph Lee Chennault

Registered office

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Principal place of business in Hong Kong

12 Floor

Culturecom Centre

47 Hung To Road

Kwun Tong

Kowloon

Hong Kong

26 September 2005

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

ISSUE OF SHARES IN CULTURE.COM TECHNOLOGY LIMITED

INTRODUCTION

The Company announced on 2 September 2005 that Culture.com Technology, an indirect wholly-owned subsidiary of the Company, entered into the Subscription Agreement with the Subscriber on 30 August 2005 in relation to the conditional subscription of 10% of the enlarged issued share capital of Culture.Com Technology at Completion at a consideration of the lower of the sum of HK\$73,500,000 or 10% of the Valuation Value. The Consideration will be satisfied in full by the allotment and issue of the Consideration Shares by the Subscriber to the Culture.com Technology or its nominee.

The Subscription involves both an acquisition of the Consideration Shares and a deemed disposal of the Company's interests in Culture.com Technology under Rule 14.29 and which constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules. The purpose of this circular is to provide you with (i) further details of the Subscription; and (ii) information regarding the Group.

* for identification purpose only

LETTER FROM THE BOARD

SUBSCRIPTION AGREEMENT

- Date** : 30 August 2005
- Parties** : (1) Issuer: Culture.com Technology Limited, an indirect wholly-owned subsidiary of the Company.
- (2) Subscriber: REXCAPITAL International Holdings Limited, a company incorporated in Bermuda and which issued shares are listed on the Stock Exchange. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Subscriber and its controlling shareholder is an Independent Third Party.
- Subscription Shares** : 100 new ordinary shares of HK\$1.00 each in the share capital of Culture.com Technology, representing 10% of the enlarged issued share capital of Culture.com Technology to be allotted and issued to the Subscriber or its nominee at Completion.
- Consideration** : The lower of the sum of HK\$73,500,000 or 10% of the Valuation Value, to be satisfied in full by the allotment and issue of the Consideration Shares to Culture.com Technology or its nominee, credited as fully paid, at the issue price of HK\$0.15 per Consideration Share.

The issue price of HK\$0.15 per Consideration Share was arrived at having considered the trading price of the shares of the Subscriber and represented (i) a premium of approximately 8.54% over the average closing price of the shares of the Subscriber of HK\$0.1382 as quoted on the Stock Exchange for the 5 trading days up to and including the date of the Subscription Agreement; (ii) a premium of approximately 11.11% over the closing price of the shares of the Subscriber of HK\$0.135 as quoted on the Stock Exchange on the date of the Subscription Agreement; and (iii) an amount equivalent to the closing price of the shares of the Subscriber of HK\$0.15 as quoted on the Stock Exchange on the Latest Practicable Date. The Consideration was arrived at after arm's length negotiations between Culture.com Technology and the Subscriber with reference to the value of the technologies already developed and/or owned by Culture.com Technology, research and development expenses incurred by Culture.com Technology in its business (which amounted to HK\$1,954,716 and HK\$17,916,536 for the financial years 2004 and 2005 respectively) and the conjectured potential market of Culture.com Technology's technologies in the future based on the experience and opinion of the directors of Culture.com Technology with reference to the increasing demand for computer and information technology products in the People's Republic of China.

The Subscriber had an authorised share capital of HK\$1,000,000,000 divided in 100,000,000,000 shares of HK\$0.01 each and an issued share capital of HK\$27,524,518.58 divided into 2,752,451,858 shares of HK\$0.01 each as at the

LETTER FROM THE BOARD

date of the Subscription Agreement and as at the Latest Practicable Date. Based on a consideration of HK\$73,500,000 and the issue price of HK\$0.15 per Consideration Share, 490,000,000 Consideration Shares shall be allotted and issued, representing approximately 17.80% of the issued share capital of the Subscriber as at the date of the Subscription Agreement and as at the Latest Practicable Date and approximately 15.11% of the enlarged issued share capital of the Subscriber assuming no further shares of the Subscriber will be issued from the Latest Practicable Date up to Completion. The 490,000,000 Consideration Shares will have a par value of HK\$4,900,000 and, based on the closing price of the shares of the Subscriber of HK\$0.135 as quoted on the Stock Exchange on the date of the Subscription Agreement, a market value of HK\$66,150,000. The Consideration Shares shall be allotted and issued credited as fully paid and shall form part of and rank pari passu in all aspects among themselves and with all shares of the Subscriber in issue as at the date of Completion. Culture.com Technology has agreed to a lock-up period of six months immediately following Completion during which it will not dispose of, transfer, sell or contract to sell (either conditionally or unconditionally, or directly or indirectly, or otherwise) any of the Consideration Shares. The Company will make further announcement upon Completion to inform Shareholders of the Valuation Value, the final Consideration and the final number of Consideration Shares.

The Directors consider that the Consideration and the terms of the Subscription Agreement are fair and reasonable and that the Subscription is in the interests of the Shareholders as a whole.

Conditions precedent :

Completion is conditional on:

- (i) if required, the passing of an ordinary resolution of the shareholders of the Subscriber at a special general meeting to approve the Subscription Agreement and the transactions contemplated therein including but not limited to the entering into of the Subscription Agreement, the Subscription and the allotment and issue of the Consideration Shares in accordance with the Listing Rules;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;
- (iii) if so required, the Bermuda Monetary Authority shall have approved the issue of the Consideration Shares;
- (iv) approval from the shareholders of Culture.com Technology for the allotment and issue of the Subscription Shares in accordance with Section 57B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
- (v) the warranties given by Culture.com Technology remaining true and correct;
- (vi) the warranties given by the Subscriber remaining true and correct;
- (vii) the basis for determining the Valuation Value and the appointment of the independent professional consultant being agreed by the parties;

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- (viii) the receipt by the Subscriber of a report on and determination of the Valuation Value;
- (ix) the Subscriber being satisfied with and having accepted the results of a due diligence review to be conducted on the affairs, business assets, liabilities, operations, records, financial position, value of assets, accounts, results, legal and financial structure of Culture.com Technology;
- (x) the relevant parties agreeing to their satisfaction the terms and conditions of a shareholders' agreement in respect of Culture.com Technology; and
- (xi) all necessary approvals (including approval certificates) from the relevant authorities in Hong Kong, Bermuda and other jurisdictions where applicable, required to be obtained on the part of the parties in relation to the allotment and issuance of the Subscription Shares and the Consideration Shares having been obtained.

Completion : Completion shall take place on the fifth business day after all the conditions precedent have been satisfied or waived or such later date as the parties may agree.

Long stop date for satisfaction / waiver of the conditions precedent : The date falling 90 days from the date of the Subscription Agreement.

INFORMATION ON CULTURE.COM TECHNOLOGY AND THE SUBSCRIPTION SHARES

Culture.com Technology is a company with limited liability incorporated in Hong Kong in 1999 and an indirect wholly-owned subsidiary of the Company. Culture.com Technology is principally engaged in the research and development of Chinese information infrastructure, including amongst other things, the Chinese Character Generating Engine ("CCGE"), the V-Dragon series of CPU and solutions for related computer applications. The research and development team of Culture.com Technology is led by Mr. Chu Bong Foo, the Vice-Chairman of the Company and inventor of the Changjie Index System (倉頡檢索系統).

CCGE, is a Chinese font generation code capable of automatically generating Chinese characters instead of retrieving Chinese characters from an outside Chinese characters databank, which revolutionised the cumbersome traditional Chinese print-edit method.

The V-Dragon series of CPU comprise the "V-Dragon 1610 CPU" and the "V-Dragon 3210 CPU". Culture.com Technology has integrated the CPU core technology with CCGE to develop the "V-Dragon 1610 CPU", and subsequently cooperated with IBM to launch the "V-Dragon 3210 CPU" in 2003. The V-Dragon series of CPU can be widely used in all kinds of Chinese embedded devices such as e-textbook, Tax/POS terminal and Chinese network computer.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Culture.com Technology had an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each and an issued share capital of HK\$2.00 divided into 2 shares of HK\$1.00 each. Following the signing of the Subscription Agreement and prior to Completion, a shareholder's loan of approximately HK\$85,993,000 will be capitalised by the allotment and issue of 898 shares of HK\$1.00 each. Immediately prior to Completion, the issued share capital of Culture.com Technology will be 900 shares of HK\$1.00 each. The Subscription Shares will represent 10% of the enlarged issued share capital of Culture.com Technology at Completion and will rank pari passu in all aspects among themselves and with all shares of Culture.com Technology in issue as at the date of Completion. Following Completion, Culture.com Technology will continue to be a subsidiary of the Company.

INFORMATION ON THE SUBSCRIBER

The following is information on the Subscriber as set out in the Subscriber's annual report 2005 dated 28 July 2005:

The Subscriber and its subsidiaries are principally engaged in strategic investments and capital market activities as well as financing business.

For the year ended 31 March 2005, the Subscriber and its subsidiaries recorded a turnover of approximately HK\$48,174,000 (2004: HK\$61,184,000). Loss before taxation was HK\$375,796,000 (2004: HK\$2,135,000) and loss after taxation was HK\$376,313,000 (2004: HK\$2,126,000). Based on the issued share capital of the Subscriber as enlarged by the Consideration Shares, loss before taxation attributable to the Consideration Shares was approximately HK\$56,782,776 (2004: HK\$322,599) and loss after taxation attributable to the Consideration Shares was approximately HK\$56,860,894 (2004: HK\$321,289). Loss attributable to the Subscriber's shareholders was HK\$376,313,000 (2004: loss of HK\$2,126,000). The basic loss per share of the Subscriber was HK18.05 cents (2004: HK0.14 cents).

As at 31 March 2005, the Subscriber and its subsidiaries had net current assets of HK\$38,042,000 (2004: HK\$369,677,000) and a total of HK\$7,841,000 in cash and cash equivalents (2004: HK\$1,217,000). Net cash inflow from operating activities for the year ended 31 March 2005 was approximately HK\$4,000,000 as compared to a net cash outflow of approximately HK\$72,000,000 for the year ended 31 March 2004.

As at 31 March 2005, the Subscriber and its subsidiaries had outstanding loans of HK\$6,752,000, which included secured loans of HK\$2,787,000 (2004: HK\$10,073,000) and an unsecured loan of HK\$3,965,000 (2004: HK\$Nil) and indebtedness of HK\$16,147,000 (2004: HK\$55,073,000).

REASONS FOR THE SUBSCRIPTION

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.

The Directors are of the opinion that the Subscription will (i) strengthen the shareholder base of Culture.com Technology by the introduction of a strategic partner; and (ii) as a result of the holding of the Consideration Shares, which are marketable securities, strengthen the financial position of the Group as a whole.

LETTER FROM THE BOARD

According to the audited accounts of Culture.com Technology as at 31 March 2005, the audited net liability of Culture.com Technology as at 31 March 2005 was approximately HK\$51,989,000. For the year ended 31 March 2005, Culture.com Technology had been engaged in research and development and had nil revenue and recorded net loss (both before and after taxation) of approximately HK\$11,116,000. According to the audited accounts of Culture.com Technology as at 31 March 2004, the audited net liability of Culture.com Technology as at 31 March 2004 was approximately HK\$40,873,000. For the year ended 31 March 2004, Culture.com Technology recorded net loss (both before and after taxation) of approximately HK\$10,147,000.

According to the unaudited management accounts of Culture.com Technology as at 31 July 2005, the net liability of Culture.com Technology as at 31 July 2005 was approximately HK\$53,225,000. For the four months' period ended 31 July 2005, Culture.com Technology recorded net loss before taxation of approximately HK\$1,236,000. Upon the capitalisation of the shareholder's loan of approximately HK\$85,993,000 before Completion as set out in the paragraph headed "Information on Culture.com Technology and the Subscription Shares" above, the net assets value of Culture.com Technology will be approximately HK\$32,768,000. Upon Completion, the net assets value of Culture.com Technology will be further increased by HK\$73,500,000 to approximately HK\$106,268,000.

The Subscription is deemed a disposal of 10% of the Company's interest in Culture.com Technology, and upon Completion, the Group expects to recognise a gain of the deemed disposal of approximately HK\$62,873,000 in the income statement of the Group given that upon the capitalisation of shareholder's loan and Completion, the net assets value of Culture.com Technology attributable to the Group will be increased from approximately HK\$32,768,000 to approximately HK\$95,641,000 (being 90% of net assets value of Culture.com Technology after taking into account the capitalisation of shareholder's loan and the Subscription). In particular, upon capitalisation of shareholder's loan, the total liabilities of Culture.com Technology attributable to the Group will be decreased from approximately HK\$210,048,000 to approximately HK\$124,055,000. Upon Completion, the total assets of Culture.com Technology attributable to the Group will be increased from approximately HK\$156,823,000 to approximately HK\$207,291,000 and total liabilities of Culture.com technology attributable to the Group will be decreased from approximately HK\$124,055,000 to approximately HK\$111,650,000.

IMPLICATIONS UNDER THE LISTING RULES

The Subscription involves both an acquisition of the Consideration Shares and a deemed disposal of the Company's interests in Culture.com Technology under Rule 14.29 and which constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Culturecom Holdings Limited
Cheung Wai Tung
Chairman

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

DISCLOSURE OF INTERESTS**(a) Director's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Interests in the Shares

Name of Director	Capacity	Nature of interests	Number of Shares held
Mr. Chu	(i) Beneficial owner	Personal interest	220,180,000
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (Note)
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000

Note: 122,872,000 Shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu.

All interests stated above represent long positions.

Interests in the share options of the Company

Name of Director	Capacity	Nature of interests	Number of share options	Exercise price per Share HK\$	Exercisable period
Mr. Cheung Wai Tung	(i) Beneficial owner	Personal interest	4,565,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	4,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Chu	(i) Beneficial owner	Personal interest	10,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) Beneficial owner	Personal interest	2,000,000	1.680	3 March 2000 to 2 March 2010
Mr. Cheung Kam Shing, Terry	(i) Beneficial owner	Personal interest	3,000,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	3,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Henry Chang Manayan	(i) Beneficial owner	Personal interest	1,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) Beneficial owner	Personal interest	500,000	1.680	3 March 2000 to 2 March 2010
	(iii) Beneficial owner	Personal interest	1,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Wan Xiaolin	(i) Beneficial owner	Personal interest	1,000,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	3,000,000	0.265	19 December 2003 to 18 December 2013

All interests stated above represent long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were

required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

- (b) **Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Interests in Shares

Name	Capacity	Nature of interests	Number of Shares held
Mr. Chu	(i) Beneficial owner	Personal interest	220,180,000
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (Note)

All interests stated above represent long positions

Note: 122,872,000 Shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu.

Interests in the share options of the Company

Name of Director	Capacity	Nature of interests	Number of share options
Mr. Chu	Beneficial owner	Personal interest	12,000,000

The interest stated above represents long position

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensations (other than statutory compensation)).

LITIGATION

In 2000, Times Ringier (HK) Limited (the "Plaintiff") claimed against the Company as the second defendant for the sum of HK\$11,966,523.72, being the alleged amount outstanding from March 2000 to 2 June 2000 of the price of "Tin Tin Daily News" printed and produced by the Plaintiff at the request of Tin Tin Publication Development Limited and for its account together with interest thereon, in respect of which it was alleged that the Company as the second defendant had agreed to indemnify and keep the Plaintiff indemnified fully for any loss and damage that the Plaintiff may have suffered. The action has been set down for trial on 31 October 2005. Counsel advised that the Company has meritorious grounds to defend. Accordingly, no provision for the alleged amount has been made.

In May 2003, Winway H.K. Investments Limited ("**Winway**"), a wholly owned subsidiary of the Company, has placed 300,000,000 shares ("**Q9 Shares**") of Q9 Technology Holdings ("**Q9 Technology**") with TKR Finance Limited ("**TKR Finance**") for safe custody and to facilitate management of the Q9 Shares. These Q9 Shares were not placed nor pledged as securities or collateral to secure any financing or whatsoever, but only to facilitate their management because Winway did not want to hold these Q9 Shares in physical scrip and to facilitate transfer in future. For these reasons, Winway retained the legal and beneficial title to the Q9 Shares at all material times. In June 2004, Winway was informed by Q9 Technology that it had received a copy of the disclosure of interests form filed pursuant to the Securities and Futures Ordinance by the provisional liquidator of TKR Finance claiming security interests in the Q9 Shares, of which Winway had no prior knowledge nor given any consent thereto. Further, Winway was not aware of any matters that may lead to such consequence. Upon receipt of such information, Winway had sought legal advice and had notified the provisional liquidator of TKR Finance about its title to the Q9 Shares and demanded the return of the same from TKR Finance. As at the Latest Practicable Date, Winway is positively seeking a feasible resolution and negotiating with the relevant parties to reclaim the Q9 Shares. The Board considered that this matter would not have any material impact on the financial position or operations of the Group and accordingly, no provision has been made in respect of the market value of the Q9 of approximately HK\$7,500,000 as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened or against the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CORPORATE INFORMATION

Registered office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Principal place of business in Hong Kong	12 Floor Culturecom Centre 47 Hung To Road Kwun Tong Kowloon Hong Kong
Company secretary and qualified accountant	Cheung Wai Keung, Cecil, <i>ACCA, CPA</i>

GENERAL

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.