
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Culturecom Holdings Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

MAJOR TRANSACTION

Purchase of assets and licence of technology

A notice convening a special general meeting (“SGM”) of the Company to be held at The Penthouse, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 27 October 2005 at 10:30 a.m. is set out on pages 58 to 59 of this circular. A form of proxy for use at the SGM is also enclosed with this circular.

If you are not able to attend the SGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at 12 Floor, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting as the case may be. Completion and delivery of the enclosed form of proxy will not preclude you from attending and voting at the SGM should you so wish.

* for identification purpose only

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DEFINITIONS

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

“Acquired Crusoe Assets and Technology”	the assets and technology to be acquired by Culture.com Technology pursuant to the Asset Purchase Agreement
“Acquisition”	the acquisition of the Acquired Crusoe Assets and Technology by Culture.com Technology pursuant to the Asset Purchase Agreement
“Alternative Financing”	alternative short term financing as defined on page 10 of this circular, details of which were announced by the Company on 28 June 2005 and 29 June 2005
“Announcement”	the announcement of the Company dated 7 June 2005 in respect of the Acquisition and Licence Agreement
“Asset Purchase Agreement”	the asset purchase agreement entered into between Culture.com Technology and Transmeta dated 27 May 2005 in respect of the Acquisition
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“CB Placing”	the placing of the Convertible Bonds pursuant to the CB Placing Agreement
“CB Placing Agreement”	the conditional placing agreement dated 2 June 2005 entered into between the Company and Kim Eng Securities (Hong Kong) Limited in relation to the placing of the Convertible Bonds, which was terminated by mutual agreement with effect from 29 July 2005
“China”	the PRC, including Hong Kong, and the Macau Special Administrative Region of the PRC, but does not include Taiwan
“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 Acquisition
“connected person”	has the meaning ascribed to this term under the Listing Rules

DEFINITIONS

“Convertible Bonds”	the 7.75% convertible redeemable bonds due 2010 to be issued by the Company in the aggregate principal amount of up to HK\$300,000,000 under the CB Placing
“Crusoe Microprocessor”	the brand name of a software-based microprocessor and its variant within the same product family
“Culture.com Technology”	Culture.com Technology Limited, a company incorporated in Hong Kong with limited liability, and an indirectly wholly owned subsidiary of the Company
“Directors”	the directors of the Company
“Efficeon Microprocessor”	the 130nm software-based microprocessor designed for 256 bits instruction and its variants, being one of the multiple versions of the same microprocessor product line under the brand name of Efficeon
“Greater China”	the PRC, including Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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 PRC
“Independent Third Party”	persons who, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, are third parties independent of the Company and its subsidiaries, its directors, chief executives and substantial shareholders or their respective associates and are not connected persons of the Company and its subsidiaries
“Intellectual Property Rights”	all intellectual property rights, including (i) trade secrets, copyrights and mask work in specific design and ancillary technology of the Crusoe Microprocessor; and (ii) the Crusoe trademark and any rights similar, corresponding or equivalent to any of the foregoing anywhere in the world
“Latest Practicable Date”	26 September 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to this circular

DEFINITIONS

“Licence”	the licence of technology under the Licence Agreement
“Licence Agreement”	the licence agreement entered into between Culture.com Technology and Transmeta dated 27 May 2005
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Manufacturing Tools”	(i) the documentation, reference designs, tools and technical manufacturing guidelines for the Crusoe Microprocessor; and (ii) the Crusoe Microprocessor design information and technical documentation, as set out in the Licence Agreement
“Mr. Chu”	Mr. Chu Bong Foo, Vice-Chairman of the Company
“PRC”	The People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“REXCAPITAL”	REXCAPITAL International Holdings Limited, a company incorporated in Bermuda and which issued shares are listed on the Stock Exchange (stock code: 155)
“SGM”	the special general meeting of the Company to be held at 10:30 a.m. on Thursday, 27 October 2005 at The Penthouse, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong to consider, and if thought fit, approve, confirm and ratify, the Asset Purchase Agreement and the Licence Agreement and the transactions contemplated thereby
“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
“Transmeta”	Transmeta Corporation, a Delaware (USA) corporation whose shares are listed on the NASDAQ, and an Independent Third Party
“USA”	the United States of America
“US\$”	United States dollars, the lawful currency of USA

DEFINITIONS

“Warrants”	the 660,000,000 warrants (where listing approval from the Stock Exchange has been sought and is pending) at an issue price of HK\$0.038 per warrant conferring rights to subscribe up to HK\$113,520,000 in aggregate in cash for Shares at an initial subscription price of HK\$0.172 per Share (subject to adjustments) within the two-year period from the date of listing of the warrants under the Warrants Placing
“Warrants Placing”	the private placing of the Warrants pursuant to the Warrants Placing Agreement
“Warrants Placing Agreement”	the conditional placing agreement dated 18 August 2005 entered into between the Company and Kingston Securities Limited in relation to the placing of the Warrants on a best endeavours basis, details of which was announced by the Company on 19 August 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

30 September 2005

*To the Shareholders, and,
for information only, the warrant holders*

Dear Sir or Madam,

MAJOR TRANSACTION

Purchase of assets and licence of technology

INTRODUCTION

The Company announced on 7 June 2005 that the Company has signed the Asset Purchase Agreement in respect of the acquisition of the Acquired Crusoe Assets and Technology and the Licence Agreement in respect of the use of the Manufacturing Tools for the manufacture and sale of the Crusoe Microprocessor and to manufacture and sell the Efficeon Microprocessor in China.

The Acquisition and the Licence Agreement together constitutes a major transaction on the part of the Company under Rule 14.06 of the Listing Rules and is subject to Shareholders' approval at the SGM. The purpose of this circular is to provide you with (i) further details of the Acquisition and the Licence Agreement; (ii) information regarding the Group; and (iii) a notice of SGM.

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LETTER FROM THE BOARD

(A) PURCHASE OF ASSETS

ASSET PURCHASE AGREEMENT

Date: 27 May 2005

Parties: (1) Buyer: Culture.com Technology

(2) Seller: Transmeta

Acquired Assets:

Pursuant to the Asset Purchase Agreement, Culture.com Technology will purchase the Acquired Crusoe Asset and Technology, including the Intellectual Properties Rights, design, technical information, goodwill, equipment and assets related to the Crusoe Microprocessor line of business. After the Acquisition, the Group will own and be able to use its ownership rights in the Acquired Crusoe Asset and Technology to develop the Group's existing and future lines of technology products, thereby raising the quality and value and creating new lines of the Group's technology products.

Consideration:

The aggregate cash consideration for the Acquired Assets is US\$5,000,000 (equivalent to approximately HK\$39,000,000), which shall be paid by Culture.com Technology to Transmeta as follows:

- (a) US\$750,000 (equivalent to approximately HK\$5,850,000) (the “**Deposit**”) upon the execution of the Asset Purchase Agreement to an escrow agent; and
- (b) the remaining cash consideration of US\$4,250,000 (equivalent to approximately HK\$33,150,000) shall be paid by Culture.com Technology to an escrow agent within 21 business days following the execution of the Asset Purchase Agreement.

The cash consideration was arrived at after arm's length negotiations between the parties to the Asset Purchase Agreement and have taken into consideration the research and development costs of the Crusoe Microprocessor, which is well known internationally for its innovative and energy efficient design, suitable for handheld and mobile computing devices.

The obligations of Culture.com Technology to pay the foregoing amount has been guaranteed by the Company.

Based on industry experience, the Directors expect great market potential for Crusoe Microprocessor technology in Greater China and consider that the cash consideration and the terms of the Asset Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Completion

Completion of the Asset Purchase Agreement will take place on the third business day after the day on which, among other things, the parties have entered into a services agreement regarding technical support to be provided by Transmeta, all export licences and other approvals required to consummate the transactions contemplated under the Asset Purchase Agreement have been obtained and that, according to the requirements which Transmeta is subject to under the Exon-Florio amendment to the Defence Production Act of 1950 of the USA for reasons of national security interest, the Committee on Foreign Investment in the USA shall have made a determination not to investigate the transactions contemplated under the Asset Purchase Agreement or if the Committee on Foreign Investment in the USA makes a determination to make an investigation, such investigation shall have been completed. The cash consideration will be released by the escrow agent to Transmeta on completion of the Asset Purchase Agreement. There is no specified long stop date for the Acquisition.

INFORMATION ON TRANSMETA AND THE ACQUIRED ASSETS

Transmeta is a Delaware (USA) corporation whose issued shares are listed on the NASDAQ exchange (symbol TMTA). To the best of the Director's knowledge, each of Transmeta, its directors, chief executive and substantial shareholders of Transmeta is an Independent Third Party. Transmeta develops, licenses and sells innovative computing, microprocessor and semiconductor technologies and related intellectual property to manufacturers enabling them to build electronic equipment such as computers offering long battery life, energy efficiency, high performance and x86 compatibility capable to support operating systems such as Microsoft Windows and different versions of Linux and most embedded operating systems.

Developed by Transmeta as one of its key product line, the Crusoe Microprocessor is widely acclaimed for its innovative and energy efficient design and adopted by many major IT vendors, such as Sony, HP, Toshiba, Fujitsu, NEC etc., as the CPU in their notebooks, PCs and servers. It is also suitable for embedded applications, such as the Group's collaboration with IBM to create the V-Dragon Chinese microprocessor by embedding the Group's Chinese Language Technology (Chinese DNA) into IBM's PowerPC microprocessor.

As announced by the Company on 29 July 2003 and detailed in a circular to Shareholders dated 19 August 2003, the Group licenced Transmeta's Midori Linux for the development of embedded applications and, in connection with that licence, Transmeta purchased an equity stake of 16.67% in Chinese 2 Linux (Holdings) Limited, an associate of the Company in which the Company holds a 40.83% equity stake.

The Acquired Crusoe Assets and Technology

The Acquired Crusoe Assets and Technology comprises assets and technologies, including intellectual property rights, design, technical information, goodwill and equipment, in the Crusoe Microprocessor. After the Acquisition, the Group will own and be able to use its ownership rights in the Acquired Crusoe Assets and Technology to develop the Group's existing and future lines of technology products.

LETTER FROM THE BOARD

Since the Acquired Crusoe Assets and Technology forms only part of the assets and technology related to the Crusoe Microprocessor and is not severable nor distinct in terms of attributable revenue or expenses, no identifiable income stream can be assigned thereto.

Further, given the highly specialised, technical and intangible nature of the Acquired Crusoe Assets and Technology and the integrated and embedded application of the Acquired Crusoe Assets and Technology by Transmeta for its customers, no precise asset valuation can be done on it because of a lack of meaningful comparables in the market.

(B) LICENCE OF TECHNOLOGY

LICENCE AGREEMENT

On 27 May 2005, Culture.com Technology entered into the Licence Agreement with Transmeta pursuant to which Transmeta agreed to grant to Culture.com Technology (i) a worldwide, exclusive royalty-bearing licence to use the Manufacturing Tools for the manufacture and sale of the Crusoe Microprocessor; and (ii) a royalty bearing licence to manufacture and sell the Efficeon Microprocessor in China. The licences are perpetual licences, unless terminated earlier for breach of any material term or condition of the Licence Agreement. In addition to the Crusoe Microprocessor, the licencing rights granted to Culture.com Technology will also enable it to engage in the manufacture and sale of different product lines of the Efficeon Microprocessor.

Culture.com Technology shall pay a one-off licence fee of US\$10,000,000 (equivalent to approximately HK\$78,000,000), which was arrived at after arm's length negotiations between the parties and have taken into consideration the past and future research and development costs incurred or to be incurred by Transmeta to an escrow agent within 21 business days following the execution of the Licence Agreement and, on an on-going accrued basis, a non-refundable royalty (payable quarterly to an account specified by Transmeta) based on a set percentage of the Group's net sales of the Crusoe Microprocessor and the Efficeon Microprocessor. The one-off licence fee of US\$10,000,000 will be released by the escrow agent to Transmeta on completion of the Licence Agreement.

The obligations of Culture.com Technology to pay the foregoing amount has been guaranteed by the Company.

The Licence

Since (i) the Manufacturing Tools constitute only part of the assets and technology related to the Crusoe Microprocessor; and (ii) Culture.com Technology is only granted licence to manufacture and sell certain model of the Efficeon series of microprocessors (as further explained below), the subject matter of the Licence is not severable nor distinct in terms of attributable revenue or expenses, no identifiable income stream can be assigned thereto.

LETTER FROM THE BOARD

Further, as is the case with the Acquired Crusoe Assets and Technology, given the highly specialised, technical and intangible nature of the subject matter of the Licence and its integrated and embedded application by Transmeta for its customers, no accurate asset valuation can be done on it because of a lack of meaningful comparables in the market.

Regarding the non-severability of the licence to manufacture and sell certain model of the Efficeon series of microprocessors from the past accounts of Transmeta, the Board understands that:

1. Transmeta is engaged in, among other things, the manufacture, distribute and sale of:
 - (1) 130nm generation microprocessors (both in the form of (i) standalone microprocessor chips; and (ii) systems on a chip);
 - (2) 90nm generation microprocessors (both in the form of (i) standalone microprocessor chips; and (ii) systems on a chip);

under the brand name “Efficeon” (the “**Efficeon Business**”). The Efficeon Business only forms a part of Transmeta’s entire business, and Transmeta does not keep separate financial statements for the Efficeon Business.

2. The Company has been advised by Transmeta that models of a series are not separately accounted for in Transmeta’s books. In particular, Transmeta is a small company with both a focused microprocessor product portfolio and a very limited operating history as a supplier of microprocessor products. Transmeta has never prepared separate profit and loss statements for its products or product lines in the ordinary course of its business. Nor has Transmeta ever conducted or had reason to conduct a valuation of the licensed rights relating to the Efficeon 130nm Product, in part because Transmeta has never before licensed any such rights to any other party. Such accounting detail and financial analyses have never been required for Transmeta’s own management or financial reporting needs. Having never developed or maintained such information in the ordinary course of its business, and having modified its business model and restructured its business operations earlier this year, Transmeta is unable to develop even an estimate of such hypothetical profit and loss statements at this time.
3. Following the grant of the Licence, Transmeta will still be in a position to undertake the Efficeon Business save and except that Transmeta shall not directly or indirectly for three years after the grant of the Licence:
 - (1) manufacture or distribute or sell one particular model, namely, Transmeta’s 130nm generation Efficeon microprocessor chip (revision 1.3), as implemented as a standalone chip and not as a system on a chip; nor
 - (2) make use of the same microprocessor core in the abovementioned model (revision 1.3) to manufacture, distribute or sell any 130nm generation system on a chip in China.

LETTER FROM THE BOARD

4. In other words, under the Licence, Culture.com Technology was not granted a licence to operate the Efficeon Business or part of the Efficeon Business. In fact, Culture.com Technology was only granted a licence over part of Transmeta's technological know-how in the Efficeon Business, whereby Culture.com Technology may use such technological know-how to develop, manufacture and sell in China:
- (1) one particular model, namely, Transmeta's 130nm generation Efficeon microprocessor chip (revision 1.3), as implemented as a standalone chip and not as a system on a chip; and
 - (2) any 130nm generation system on a chip that includes a microprocessor core that is the same microprocessor core in the abovementioned model (revision 1.3), to be newly developed by Culture.com Technology,

subject to the overriding condition that Culture.com Technology shall not manufacture nor sell 90nm or other sub-130nm generation products.

SOURCE OF FUNDING

The Deposit of US\$750,000 (equivalent to approximately HK\$5,850,000) under the Asset Purchase Agreement was financed by the internal resources of the Group. The balance of the cash consideration for the Acquisition of US\$4,250,000 (equivalent to approximately HK\$33,150,000) and the licence fee under the Licence Agreement of US\$10,000,000 (equivalent to approximately HK\$78,000,000) was originally intended to be financed by the proceeds from the CB Placing announced on 7 July 2005. However, as at 27 June 2005 being the time stipulated in the Asset Purchase Agreement and the Licence Agreement for payment of the respective sums into escrow, the CB Placing had not yet been completed.

As such, the Group sought and obtained alternative financing to satisfy the said balance of the cash consideration, details of which were announced on 28 and 29 June 2005. Such alternative financing consists of a short term financing as to HK\$29,000,000 which were unsecured, interest free, not guaranteed and having no fixed term from Mr. Cheung Wai Tung, Chairman and executive Director; as to HK\$70,000,000 which were secured over certain title deeds to the Group's property, carrying 8% per annum interest rate, for a term of three months from Overseas Associates Limited, an Independent Third Party; and as to the remaining HK\$12,150,000 from the Company's working capital (together "**Alternative Financing**").

As a result, the Company decided to terminate the CB Placing by mutual agreement with Kim Eng Securities (Hong Kong) Limited, the placing agent, with effect from 29 July 2005, details of which was announced by the Company on 29 July 2005. The Directors confirmed that an agreement has been made between the Company and Overseas Associates Limited to extend the three months loan of HK\$70,000,000 for another nine months from 27 September 2005 for repayment and the Directors perceived no financial stress to the normal operations of the Group during this period, notwithstanding the 8% per annum interest rate.

LETTER FROM THE BOARD

To summarise, the initial Deposit of approximately HK\$5,850,000 was financed by the internal resources of the Group. The balance of the cash consideration for the Acquisition of approximately HK\$33,150,000 and the licence fee under the Licence Agreement of approximately HK\$78,000,000 was financed by the Chairman of the Company as to HK\$29,000,000, a secured loan of HK\$70,000,000 and HK\$12,150,000 from the Company's working capital.

On 18 August 2005, the Company entered into the Warrants Placing Agreement for the placing of the Warrants at an issue price of HK\$0.038 per Warrant. The Warrants Placing has been completed on 28 September 2005 and the net proceeds to the Company is approximately HK\$24.1 million, which will be mainly used for general working capital as to advertising and promotion of the Group's technology products and general administration expenses of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE LICENCE AGREEMENT

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 Acquisition

In collaboration with IBM, the Group incorporates its self-developed Chinese Language Algorithm (Chinese DNA), an unique value added function, into IBM's PowerPC Microprocessor and market the resulting "V-Dragon" as a Chinese enabled microprocessor with very satisfactory result in China. The Acquisition is a continuation of this value adding microprocessor strategy in which the Group also has this world class technology core as its own asset.

The established x86 industry allows IT manufacturers to develop products much more timely and cost effectively, since peripheral components, design services, and software application, etc. are widely available. After the Acquisition, as a supplier of this x86 compatible microprocessor, the Group's business will be positioned on the upper end at the industrial chain, being more profitable and sustainable. The Group's market sector will cover from middle to high end, especially the x86 sector which is among the largest sector within IT industry.

Given the high English illiteracy rate in the PRC, the Board expects that combining the Group's unique Chinese DNA technology with the Acquired Crusoe Assets and Technology (which features cost effectiveness, energy saving, and embeddability) will well fit Greater China's specific user requirements. The Directors believe that the Group will be a very strong competitor and provider of low price, energy saving, versatile and Chinese language capable products in the Greater China IT market, which is among the largest and fastest growing.

LETTER FROM THE BOARD

The Licence Agreement

Developed by Transmeta as its key product line, the Crusoe Microprocessor and the Efficeon Microprocessor are widely acclaimed for the innovative and energy efficient design and adopted by many major IT vendors. The Board believes that the Crusoe Microprocessor and the Efficeon Microprocessor, as proven final products, will continually be accepted by IT customers in Greater China before new products are put into the market. By the Licence Agreement, the Group will gain the capability to manufacture the Crusoe Microprocessor as well as certain models of the Efficeon Microprocessor and generate revenue from the sale thereof.

The Directors including the independent non-executive Directors are of the opinion that the terms of the Asset Purchase Agreement and the Licence Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and recommend Shareholders to vote in favour of the resolution as set out in the notice of SGM.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE LICENCE AGREEMENT

Turnover and earnings

The Group's total turnover for the financial year ended 31 March 2005 was approximately HK\$47,247,000, of which approximately HK\$237,000 was attributable to the Group's business of Chinese information technologies.

Upon completion of the Asset Purchase Agreement and the Licence Agreement, Transmeta will deliver the Acquired Crusoe Assets and Technology and licence the use of the Manufacturing Tools for the manufacture and sale of the Crusoe Microprocessor and to manufacture and sell the Efficeon Microprocessor to Culture.com Technology. The Directors expect that combining the Group's unique Chinese DNA technology with the Acquired Crusoe Assets and Technology will well fit Greater China's specific user requirements and also generate revenue from the sales thereof. In addition, given the market potential of the Crusoe Microprocessor and the Efficeon Microprocessor in Greater China, the Directors also expect that the Group's turnover and earnings can be significantly improved by the revenue generating from the sales thereof in the coming years based on the reasons stated in the previous section and the fact that Greater China has been in continuous growth in the past decades and is widely believed to maintain its rapid growth in the coming years.

Assets and liabilities

As at 31 March 2005, the Group's total assets amounted to approximately HK\$324,436,000 and its total liabilities amounted to approximately HK\$24,325,000.

Upon Completion, the total assets of the Group will be increased by approximately HK\$99,000,000, which represents the aggregate cash consideration for the Acquired Assets and the licence fee for the Licence and deducting the amount which was financed by the internal resources of the Group. The total liabilities will be increased by the aggregate amount of the unsecured loan from the Chairman and the secured third-party loan, which is approximately

LETTER FROM THE BOARD

HK\$99,000,000. Meanwhile, the Directors consider that the increase in the Group's liabilities will be improved in the coming years when the revenue has been generated from the sale of the new products equipped with the Crusoe Microprocessor and/or the Efficeon Microprocessor.

Working capital

The cash consideration for the Acquisition and the one-off licence fee under the Licence Agreement was originally intended to be financed by the net proceeds from the CB Placing. On 27 June 2005, the Company had successfully obtained Alternative Financing to satisfy the balance of the cash consideration. The CB Placing was terminated with effect from 29 July 2005 by mutual agreement between the Company and the placing agent.

Subsequently on 18 August 2005, the Company entered into the Warrants Placing for the placing of the Warrants. The Warrants Placing has been completed on 28 September 2005 and the net proceeds to the Company is approximately HK\$24.1 million, which will be mainly used for general working capital as to advertising and promotion of the Group's technology products and general administration expenses of the Group.

As regards the HK\$70,000,000 short term loan from Overseas Associates Limited, the same has been extended for another nine months from 27 September 2005 for repayment. The Company may consider other financing methods such as bank facility, equity placement or funding from internal resources to repay such loan when it is due for repayment. The loan interests in the amount of HK\$5,600,000 per year will adequately be covered by internal resources of the Company. Therefore, the Directors believe there is no material effect on the Group's working capital position.

Based on the above and in absence of unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements and the Acquisition and the Licence Agreement will not have any material adverse effect on the working capital position of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition and the Licence Agreement together constitutes a major transaction on the part of the Company under Rule 14.06 of the Listing Rules and is subject to Shareholders' approval at the SGM. None of the Shareholders has a material interest in the Acquisition or the Licence Agreement and accordingly no Shareholder is required to abstain from voting at the SGM.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

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. For the financial year ended 31 March 2005, the Group recorded net loss attributable to Shareholders of approximately HK\$162,931,000 (2004: HK\$72,467,000) and net loss per share of approximately HK4.84 cents (2004: HK2.37 cents).

LETTER FROM THE BOARD

In addition to the existing technology business of the Group, upon the completion of the Asset Purchase Agreement and the Licence Agreement, the Group will be able to focus on the development of new lines of value-added technology products and commerce manufacture and sale of the Crusoe Microprocessor and the Efficeon Microprocessor in Greater China market.

The Directors are optimistic about the prospects of the Group's business and believe that the financial status of the Group for the coming financial years will improve when revenue from the Group's technology products is generated, in particular, the new products equipped with the Crusoe Microprocessor and the Efficeon Microprocessor targeted for the Greater China market. Such views are based upon the phenomenal growth of the Greater China market, and the ever increasing demand for electronic products equipped with cutting edge or unique technologies (such as low power consumption, high density, energy efficient and cost effective) by the newly affluent society.

On 30 August 2005, Culture.com Technology had entered into a conditional subscription agreement with REXCAPITAL in relation to the subscription by REXCAPITAL of 100 new shares of HK\$1.00 each in the share capital of Culture.com Technology at a consideration of the lower of the sum of HK\$73,500,000 or 10% of the valuation value of such new shares in Culture.com Technology to be satisfied by REXCAPITAL issuing the appropriate number of new ordinary shares in the share capital of REXCAPITAL in favour of Culture.com Technology or its nominee, details of which was announced by the Company on 2 September 2005.

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.

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 revolutionized 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.

The Directors are of the opinion that the said subscription will (i) strengthen the shareholder base of Culture.com Technology by the introduction of a strategic partner, REXCAPITAL, a company listed on the Main Board of the Stock Exchange; and (ii) as a result of the holding of the shares of REXCAPITAL to be allotted and issued as consideration to the said subscription, which shares are marketable securities, will strengthen the financial position of the Group as a whole. A circular containing further details on the subscription and information regarding REXCAPITAL has been despatched to the Shareholders on 26 September 2005.

SGM

A notice convening the SGM at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, to approve, confirm and ratify the Asset Purchase Agreement and the Licence Agreement and the transactions contemplated thereby, is set out on pages 58 to 59 of this circular. A form of proxy for use at the SGM is also enclosed with this circular.

LETTER FROM THE BOARD

In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority (if any) under which it is signed must be delivered to the principal place of business of the Company at 12 Floor, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and delivery of the enclosed form of proxy will not preclude you from attending and voting at the SGM should you so wish.

RECOMMENDATION

The Directors including the independent non-executive Directors are of the opinion that the terms of the Asset Purchase Agreement and the Licence Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and recommend Shareholders to vote in favour of the resolution as set out in the notice of SGM.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS AT THE SGM

According to bye-law 78 of the Company's Bye-laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (a) the chairman of the meeting; or
- (b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

ADDITIONAL INFORMATION

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

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

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the unqualified audited financial results of the Group for each of the three years ended 31 March 2005 as extracted from the audited financial statements of the Group for the relevant years.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March

		2005	2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		47,247	40,655	59,138
Cost of sales		(37,004)	(31,364)	(48,220)
Gross profit		10,243	9,291	10,918
Other operating income		6,994	7,942	3,584
Administrative expenses		(81,913)	(64,458)	(78,787)
Amortisation of development costs		(23,818)	(18,706)	(18,431)
Research and development expenditures		(8,819)	(4,815)	(9,356)
Allowances for trade and other debtors		(8,166)	(1,123)	(25,975)
Net unrealised (loss) gain on other investments		(42,324)	15,600	(5,565)
Amortisation of goodwill		–	–	(220)
Loss from operations	6	(147,803)	(56,269)	(123,832)
Share of results of associates		(10,034)	(9,514)	(8,518)
Share of result of a jointly controlled entity		(1,526)	(1,136)	(2,607)
Gain on disposal of an associate		–	1,995	–
Loss on deemed disposal of an associate		–	(1,548)	–
Finance costs	7	(9)	(9)	(16)
Write back of impairment loss previously recognised in respect of property, plant and equipment		23,000	–	–
Allowances for loans to associates		(5,591)	–	(28,000)
Impairment loss recognised in respect of development costs	13	(6,700)	–	–
Impairment loss recognised in respect of goodwill in reserve	27	(10,777)	(6,000)	–
Impairment loss recognised in respect of premium on formation of a jointly controlled entity	17	(3,491)	–	–
Gain on disposal of subsidiaries		–	–	16,328
Impairment loss recognised in respect of goodwill arising on acquisition of an associate		–	–	(4,389)
Gain on expiry of warrants		–	–	97
Loss before taxation		(162,931)	(72,481)	(150,937)
Taxation credit	9	–	–	141
Loss before minority interests		(162,931)	(72,481)	(150,796)
Minority interests		–	14	1,434
Net loss for the year		(162,931)	(72,467)	(149,362)
Loss per share – basic and diluted	10	HK(4.84) cents	HK(2.37) cents	HK(4.99) cents

CONSOLIDATED BALANCE SHEET*At 31 March*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	11	62,004	70,989	80,795
Investment properties	12	56,015	–	–
Development costs	13	32,955	45,557	55,506
Interests in associates	16	12,171	86,274	100,101
Interest in a jointly controlled entity	17	740	5,757	6,893
Investments in securities	18	1,385	1,385	4,585
		<u>165,270</u>	<u>209,962</u>	<u>247,880</u>
Current assets				
Inventories	19	3,595	15,783	13,847
Trade debtors	20	9,152	10,979	12,494
Other debtors, deposits and prepayments		23,151	33,903	36,480
Amounts due from related companies		7,640	7,668	6,199
Amount due from a jointly controlled entity		1,540	82	23
Amounts due from associates	21	75,796	–	–
Taxation recoverable		62	–	398
Investments in securities	18	23,036	65,948	50,250
Bank balances and deposits with other financial institutions		15,194	69,809	15,835
		<u>159,166</u>	<u>204,172</u>	<u>135,526</u>
Current liabilities				
Trade creditors	22	9,645	5,482	6,047
Other creditors and accrued charges		14,163	17,344	14,044
Amounts due to related companies		467	488	975
Obligations under a finance lease				
– amount due within one year	23	34	34	34
		<u>24,309</u>	<u>23,348</u>	<u>21,100</u>
Net current assets		<u>134,857</u>	<u>180,824</u>	<u>114,426</u>
		<u><u>300,127</u></u>	<u><u>390,786</u></u>	<u><u>362,306</u></u>
Capital and reserves				
Share capital	24	346,160	332,352	301,400
Reserves	27	(46,049)	58,384	60,808
		<u>300,111</u>	<u>390,736</u>	<u>362,208</u>
Non-current liabilities				
Obligations under a finance lease				
– amount due after one year	23	16	50	84
Minority interests		–	–	14
		<u><u>300,127</u></u>	<u><u>390,786</u></u>	<u><u>362,306</u></u>

BALANCE SHEET*At 31 March*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets				
Investments in subsidiaries	14	80,709	80,709	80,709
Amounts due from subsidiaries	15	–	264,235	278,780
Loans to associates	16	–	3,970	3,970
		<u>80,709</u>	<u>348,914</u>	<u>363,459</u>
Current assets				
Amounts due from associates	21	3,970	–	–
Amounts due from subsidiaries	15	204,304	–	–
Other debtors, deposits and prepayments		3,444	3,444	3,444
Bank balances		<u>8,334</u>	<u>42,291</u>	<u>46</u>
		220,052	45,735	3,490
Current liabilities				
Other creditors and accrued charges		<u>509</u>	<u>492</u>	<u>364</u>
Net current assets		<u>219,543</u>	<u>45,243</u>	<u>3,126</u>
		<u>300,252</u>	<u>394,157</u>	<u>366,585</u>
Capital and reserves				
Share capital	24	346,160	332,352	301,400
Reserves	27	<u>(45,908)</u>	<u>61,805</u>	<u>65,185</u>
		<u>300,252</u>	<u>394,157</u>	<u>366,585</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 March*

	Total equity HK\$'000
At 1 April 2002	450,510
Exchange differences on translation of overseas operations not recognised in the income statement	18
Exercise of warrants	61,139
Gain on expiry of warrants recognised in the income statement	(97)
Net loss for the year	(149,362)
At 31 March 2003 and 1 April 2003	362,208
Exchange differences on translation of overseas operations not recognised in the income statement	170
Issue of warrants	23,774
Exercise of warrants	18,104
Exercise of share options	52,947
Impairment loss recognised in respect of goodwill arising on acquisition of an associate included in reserve	6,000
Net loss for the year	(72,467)
At 31 March 2004 and 1 April 2004	390,736
Exchange differences on translation of overseas operations not recognised in the income statement	7
Exercise of warrants	11,646
Exercise of share options	18,937
Share issue expenses	(51)
Surplus on revaluation of investment properties	30,990
Impairment loss recognised in respect of goodwill arising on acquisition of an associate included in reserve	10,777
Net loss for the year	(162,931)
At 31 March 2005	<u>300,111</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 March*

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Loss before taxation	(162,931)	(72,481)	(150,937)
Adjustments for:			
Amortisation of development costs	23,818	18,706	18,431
Depreciation and amortisation of property, plant and equipment	7,422	10,957	10,363
Amortisation of goodwill	–	–	220
Dividend income	(82)	(140)	(375)
Interest expenses	9	9	16
Interest income	(328)	(389)	(754)
Loss on disposal of property, plant and equipment	219	3	99
Write-down of inventories	14,294	2,500	1,078
Allowances for trade and other debtors	8,166	1,123	25,975
Net realised loss (gain) on investments	342	(1,960)	1,898
Net unrealised loss (gain) on investments in securities	42,324	(15,600)	5,565
Share of results of associates	10,034	9,514	8,518
Share of result of a jointly controlled entity	1,526	1,136	2,607
Gain on disposal of an associate	–	(1,995)	–
Loss on deemed disposal of an associate	–	1,548	–
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	–	–
Write back of impairment loss previously recognised in respect of property, plant and equipment	(23,000)	–	–
Allowances for amounts due from associates	5,591	–	28,000
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	–	4,389
Gain on disposal of subsidiaries	–	–	(16,328)
Gain on expiry of warrants	–	–	(97)
Operating cash flows before movements in working capital	(51,628)	(41,069)	(61,332)
Increase in inventories	(2,106)	(4,436)	(14,405)
(Increase) decrease in trade debtors	(1,339)	1,515	2,930
Decrease (increase) in other debtors, deposits and prepayments	5,752	1,454	(6,823)
Decrease (increase) in amounts due from related companies	28	(1,469)	(2,093)
Increase in amount due from a jointly controlled entity	(1,458)	(59)	(23)
Increase (decrease) in trade creditors	4,163	(565)	(1,377)
(Decrease) increase in other creditors and accrued charges	(3,181)	3,300	1,541
Decrease in amounts due to related companies	(21)	(487)	(1,763)
NET CASH USED IN OPERATIONS	(49,790)	(41,816)	(83,345)
Interest received	328	389	754
Hong Kong Profits Tax (paid) refunded	(62)	398	204
NET CASH USED IN OPERATING ACTIVITIES	(49,524)	(41,029)	(82,387)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
INVESTING ACTIVITIES			
Additions to development costs	(17,438)	(8,121)	(14,326)
Advances to associates	(17,318)	(9,241)	(11,225)
Purchase of investments in securities	(2,331)	–	(1,200)
Purchase of property, plant and equipment	(1,164)	(1,790)	(6,656)
Proceeds from disposal of investments in securities	2,577	5,062	13,047
Dividend received from investments in securities	82	140	375
Proceeds from disposal of property, plant and equipment	5	–	23
Proceeds from disposal of an associate	–	14,001	–
Disposal of subsidiaries	–	–	(2,318)
Acquisition of interest in an associate	–	–	(27,005)
Acquisition of interest in jointly controlled entity	–	–	(9,500)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(35,587)</u>	<u>51</u>	<u>(58,785)</u>
FINANCING ACTIVITIES			
Net proceeds from issue of shares	30,583	71,051	61,139
Share issue expenses	(51)	–	–
Repayment of obligations under a finance lease	(34)	(34)	(50)
Interest paid	(9)	(9)	(16)
Net proceeds from issue of warrants	–	23,774	–
NET CASH FROM FINANCING ACTIVITIES	<u>30,489</u>	<u>94,782</u>	<u>61,073</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(54,622)	53,804	(80,099)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	69,809	15,835	95,916
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>7</u>	<u>170</u>	<u>18</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>15,194</u></u>	<u><u>69,809</u></u>	<u><u>15,835</u></u>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances and deposits with other financial institutions	<u><u>15,194</u></u>	<u><u>69,809</u></u>	<u><u>15,835</u></u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 March***1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are being listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as an investment holding company. Its subsidiaries are principally engaged in publishing, Chinese information infrastructure and investment holding.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the transactions and short term financing raised on 27 June 2005 of approximately HK\$99,000,000 as mentioned in note 34. Provided that the funding from placing of convertible bonds as mentioned in note 34 can be secured, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. 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 1 January 2005 except for HKFRS 3. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31 March 2005.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities and investment properties and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid less any discount on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Property rental income under operating leases is recognised on a straight line basis over the terms of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Jointly controlled entity

Joint venture arrangement which involve the establishment of a separate entity in which each venturer has an interest is referred to as jointly controlled entity.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment loss.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and building	5%
Leasehold improvements	Shorter of the lease term or 10%
Plant and machinery	7% to 20%
Vehicles, furniture and equipment	15% to 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment properties revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are separately identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Finance lease

Lease is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the asset concerned to the Group. Asset held under a finance lease is capitalised at its fair value at the date of acquisition. The corresponding liabilities to the lessor, net of interest charges, are included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the asset acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the terms of the relevant leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate, if applicable. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated to Hong Kong dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as an expense in the year in which the operation is disposed of.

Retirement benefits costs

Payments to the Group's retirement benefits scheme are charged as an expense as they fall due.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely publishing, Chinese information infrastructure and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Publishing	–	publishing of comics and related business
Chinese information infrastructure	–	sales of Chinese operating system, processor, eTextbook and application software
Investment holding	–	investment holding

Segment information about these businesses is presented below:

Income statement for the year ended 31 March 2005

	Publishing	Chinese information infrastructure	Investment holding	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	47,010	237	–	47,247
Segment results	1,291	(80,862)	(41,113)	(120,684)
Unallocated corporate expenses				(27,119)
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 loss 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)	–	(3,491)
Loss before taxation				(162,931)
Taxation				–
Loss before minority interests				(162,931)
Minority interests				–
Net loss for the year				(162,931)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Balance sheet at 31 March 2005**

	Publishing	Chinese information infrastructure	Investment holding	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Segment assets	21,093	126,008	30,698	177,799
Interests in associates	–	12,171	–	12,171
Interest in a jointly controlled entity	–	740	–	740
Unallocated corporate assets				133,726
Consolidated total assets				324,436
LIABILITIES				
Segment liabilities	14,997	3,461	690	19,148
Unallocated corporate liabilities				5,177
Consolidated total liabilities				24,325

Other information for the year ended 31 March 2005

	Publishing	Chinese information infrastructure	Investment holding	Unallocated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions of property, plant and equipment	17	918	–	229	1,164
Additions of development costs	–	17,916	–	–	17,916
Amortisation of development costs	–	23,564	–	254	23,818
Depreciation and amortisation of property, plant and equipment	866	3,769	16	3,249	7,900
Allowances for trade and other debtors	2,227	2,556	–	3,383	8,166
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	–	–	3,491

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Income statement for the year ended 31 March 2004**

	Publishing	Chinese information infrastructure	Investment holding	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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				(56,269)
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)	–	<u>(6,000)</u>
Loss before taxation				(72,481)
Taxation				<u>–</u>
Loss before minority interests				(72,481)
Minority interests				<u>14</u>
Net loss for the year				<u><u>(72,467)</u></u>

Balance sheet at 31 March 2004

	Publishing	Chinese information infrastructure	Investment holding	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Segment assets	<u>22,696</u>	<u>81,698</u>	<u>130,438</u>	234,832
Interests in associates	–	22,964	63,310	86,274
Interest in a jointly controlled entity	–	5,757	–	5,757
Unallocated corporate assets				<u>87,271</u>
Consolidated total assets				<u><u>414,134</u></u>
LIABILITIES				
Segment liabilities	<u>10,892</u>	<u>6,277</u>	<u>673</u>	17,842
Unallocated corporate liabilities				<u>5,556</u>
Consolidated total liabilities				<u><u>23,398</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Other information for the year ended 31 March 2004**

	Publishing	Chinese information infrastructure	Investment holding	Unallocated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions of property, plant and equipment	7	1,574	–	209	1,790
Additions of development costs	–	8,757	–	–	8,757
Amortisation of development costs	–	18,706	–	–	18,706
Depreciation and amortisation of property, plant and equipment	1,030	4,077	17	6,469	11,593
Allowances for trade and other debtors	93	1,030	–	–	1,123
Impairment loss recognised in respect of goodwill in reserve	–	6,000	–	–	6,000

Income statement for the year ended 31 March 2003

	Publishing	Chinese information infrastructure	Investment holding	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	55,539	3,599	–	59,138
Segment results	3,480	(58,089)	(34,684)	(89,293)
Unallocated corporate expenses				(34,539)
Loss from operations				(123,832)
Share of results of associates	–	(8,518)	–	(8,518)
Share of result of a jointly controlled entity	–	(2,607)	–	(2,607)
Gain on disposal of subsidiaries	–	16,328	–	16,328
Allowance for loans to associates	–	–	(28,000)	(28,000)
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	(1,389)	(3,000)	(4,389)
Gain on expiry of warrants				97
Finance costs				(16)
Loss before taxation				(150,937)
Taxation credit				141
Loss before minority interests				(150,796)
Minority interests				1,434
Net loss for the year				(149,362)

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Balance sheet at 31 March 2003

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	35,524	116,868	40,441	192,833
Interests in associates				100,101
Interest in a jointly controlled entity				6,893
Unallocated corporate assets				83,579
Consolidated total assets				383,406
LIABILITIES				
Segment liabilities	13,365	3,612	411	17,388
Unallocated corporate liabilities				3,796
Consolidated total liabilities				21,184

Other information for the year ended 31 March 2003

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	168	5,938	–	718	6,824
Additions of development costs	–	14,920	–	–	14,920
Amortisation of development costs	–	18,431	–	–	18,431
Depreciation and amortisation of property, plant and equipment	645	3,869	20	6,423	10,957
Amortisation of goodwill	–	220	–	–	220
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	1,389	3,000	–	4,389
Allowances for other debtors and deposits	119	19,070	6,786	–	25,975

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 HK\$'000	2004 HK\$'000	2003 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	47,247	40,373	56,715	(135,939)	(39,345)	(101,628)
PRC	–	282	2,423	(11,864)	(16,924)	(22,204)
	47,247	40,655	59,138	(147,803)	(56,269)	(123,832)

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets			Additions to property, plant and equipment and development costs		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	319,402	404,694	373,634	19,038	3,411	14,234
PRC	5,034	9,440	9,772	42	7,136	7,510
	<u>324,436</u>	<u>414,134</u>	<u>383,406</u>	<u>19,080</u>	<u>10,547</u>	<u>21,744</u>

6. LOSS FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):			
Staff costs			
Directors' emoluments (<i>note 8</i>)	5,346	4,656	4,618
Other staff costs:			
– Retirement benefits schemes contributions	635	807	1,682
– Salaries and other benefits (<i>note</i>)	22,537	24,759	38,363
	<u>28,518</u>	<u>30,222</u>	<u>44,663</u>
Less: Amount capitalised in the development costs	<u>430</u>	<u>5,356</u>	<u>5,093</u>
	28,088	24,866	39,570
Auditors' remuneration	835	870	950
Write-down of inventories	14,294	2,500	1,078
Depreciation and amortisation			
– Owned assets	7,875	11,568	10,942
– Asset held under a finance lease	25	25	15
	<u>7,900</u>	<u>11,593</u>	<u>10,957</u>
Less: Amount capitalised in the development costs	<u>478</u>	<u>636</u>	<u>594</u>
	7,422	10,957	10,363
Loss on disposal of property, plant and equipment	219	3	99
Operating lease rentals in respect of rented premises	1,533	1,278	1,216
Net realised loss (gain) on investments in securities	342	(1,960)	1,898
Net property rental income under operating leases, net of direct outgoings of HK\$200,000 (2004 and 2003: HK\$142,000)	(3,907)	(2,973)	(2,299)
Interest income	(328)	(389)	(754)
Dividend income	<u>(82)</u>	<u>(140)</u>	<u>(375)</u>

Note: Amount includes salaries of HK\$5,122,000 (2004 and 2003: Nil) paid to employees engaged in research and development activities. The amount is classified as research and development expenditures in the income statement.

7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Interest on a finance lease	<u>9</u>	<u>9</u>	<u>16</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Directors' remuneration:			
Fees:			
Executive directors	480	360	360
Independent non-executive directors	<u>720</u>	<u>120</u>	<u>120</u>
	<u>1,200</u>	<u>480</u>	<u>480</u>
Other emoluments:			
Executive directors:			
Salaries and other benefits	3,978	4,008	3,958
Retirement benefits scheme contributions	42	48	60
Independent non-executive directors:			
Salaries and other benefits	<u>126</u>	<u>120</u>	<u>120</u>
	<u>4,146</u>	<u>4,176</u>	<u>4,138</u>
	<u>5,346</u>	<u>4,656</u>	<u>4,618</u>

Emoluments of the directors were within the following bands:

	Number of directors		
	2005	2004	2003
Nil – HK\$1,000,000	6	5	5
HK\$1,000,001 – HK\$1,500,000	<u>3</u>	<u>3</u>	<u>3</u>
	<u>9</u>	<u>8</u>	<u>8</u>

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office.

There was no arrangement under which a director had waived or agreed to waive any remuneration in both years.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2004 and 2003: three) were directors of the Company whose emoluments are included in the disclosure in note 8(a) above. The details of the remaining two (2004 and 2003: two) highest paid individuals were as follows:

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,297	2,201	2,616
Retirement benefits scheme contributions	24	24	24
	<u>2,321</u>	<u>2,225</u>	<u>2,640</u>

Their emoluments were within the following bands:

	2005	Number of employees 2004	2003
Nil to HK\$1,000,000	1	1	–
HK\$1,000,001 to HK\$1,500,000	1	1	2
	<u>2</u>	<u>2</u>	<u>2</u>

9. 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.

Details of the unprovided deferred taxation are set out in note 28.

The taxation for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(162,931)</u>	<u>(72,481)</u>	<u>(150,937)</u>
Taxation at the domestic income tax rate of 17.5% (2004: 17.5%; 2003: 16%)	(28,513)	(12,684)	(24,150)
Tax effect of income not taxable for tax purpose	(4,082)	(417)	(2,733)
Tax effect of estimated tax losses not recognised	18,815	9,916	19,886
Tax effect of expenses not deductible for tax purpose	13,780	3,185	6,997
Overprovision of taxation in previous years	–	–	141
Taxation credit for the year	<u>–</u>	<u>–</u>	<u>141</u>

10. 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; 2003: HK\$149,362,000) and the weighted average number of 3,366,259,000 (2004: 3,058,898,000; 2003: 2,993,968,000) 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.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Vehicles, furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1 April 2002	128,400	31,759	15,429	55,792	231,380
Additions	–	285	–	6,539	6,824
Disposals	–	–	(140)	(75)	(215)
Disposal of subsidiaries	–	–	–	(1,577)	(1,577)
At 31 March 2003 and 1 April 2003	128,400	32,044	15,289	60,679	236,412
Additions	–	62	–	1,728	1,790
Disposals	–	–	–	(17)	(17)
At 31 March 2004 and 1 April 2004	128,400	32,106	15,289	62,390	238,185
Additions	–	228	–	936	1,164
Transfer to investment properties (note 12)	(68,761)	–	–	–	(68,761)
Disposals	–	–	(839)	(15,353)	(16,192)
At 31 March 2005	59,639	32,334	14,450	47,973	154,396
DEPRECIATION, AMORTISATION AND IMPAIRMENT					
At 1 April 2002	77,162	20,924	11,819	35,203	145,108
Provided for the year	2,254	3,603	193	4,907	10,957
Eliminated on disposals	–	–	(50)	(43)	(93)
Eliminated on disposal of subsidiaries	–	–	–	(355)	(355)
At 31 March 2003 and 1 April 2003	79,416	24,527	11,962	39,712	155,617
Provided for the year	2,254	3,550	717	5,072	11,593
Eliminated on disposals	–	–	–	(14)	(14)
At 31 March 2004 and 1 April 2004	81,670	28,077	12,679	44,770	167,196
Provided for the year	1,036	1,254	592	5,018	7,900
Transfer to investment properties (note 12)	(43,736)	–	–	–	(43,736)
Write back of impairment (Note)	(23,000)	–	–	–	(23,000)
Eliminated on disposals	–	–	(615)	(15,353)	(15,968)
At 31 March 2005	15,970	29,331	12,656	34,435	92,392
NET BOOK VALUES					
At 31 March 2005	43,669	3,003	1,794	13,538	62,004
At 31 March 2004	46,730	4,029	2,610	17,620	70,989
At 31 March 2003	48,984	7,517	3,327	20,967	80,795

Note: The directors have reassessed the recoverable amount of the medium-term leasehold land and building and write back an impairment loss previously recognised of approximately HK\$23,000,000.

The leasehold land and building of the Group at 31 March 2005 are situated in Hong Kong and held under a medium-term lease.

At the balance sheet date, included in vehicles, furniture and equipment is an asset held under a finance lease with net book value of HK\$103,000 (2004: HK\$128,000; 2003: HK\$153,000).

Subsequent to the balance sheet date, the leasehold land and building have been pledged to secure a short term loan granted to the Group from an independent third party of HK\$70,000,000. Details of the subsequent event are set out in note 34.

12. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
Transfer from property, plant and equipment	25,025
Surplus on revaluation	30,990
At 31 March 2005	56,015

Investment properties were valued at their open market value at 31 March 2005 by Messrs. Castores Magi (Hong Kong) Limited.

This valuation gave rise to a revaluation increase which has been credited to the investment properties revaluation reserve.

All of the Group's investment properties are rented out under operating leases.

Subsequent to the balance sheet date, the Group's investment properties have been pledged to secure a short term loan granted to the Group from an independent third party of HK\$70,000,000. Details of the subsequent event are set out in note 34.

The investment properties of the Group at 31 March 2005 are situated in Hong Kong and held under a medium-term lease.

13. DEVELOPMENT COSTS

	2005 <i>HK\$'000</i>	THE GROUP 2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
COST			
At 1 April	95,045	86,288	107,900
Additions	17,916	8,757	14,920
Disposal of subsidiaries	–	–	(36,532)
At 31 March	112,961	95,045	86,288
AMORTISATION AND IMPAIRMENT			
At 1 April	49,488	30,782	26,525
Amortised for the year	23,818	18,706	18,431
Eliminated on disposal of subsidiaries	–	–	(14,174)
Impairment loss recognised	6,700	–	–
At 31 March	80,006	49,488	30,782
NET BOOK VALUES			
At 31 March	32,955	45,557	55,506

Development costs represent expenditure incurred for the development of the Chinese information infrastructure. Such development costs are deferred and amortised over estimated useful lives range from two to five years from the date of commencement of commercial operations.

In response to the rapid change of the I.T. environment, the Group assessed the recoverable amounts of its development costs and recognised an impairment loss of approximately HK\$6,700,000.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	374,246	374,246	374,246
Less: Impairment loss recognised	(293,537)	(293,537)	(293,537)
	<u>80,709</u>	<u>80,709</u>	<u>80,709</u>

Particulars of the Company's principal subsidiaries as at 31 March 2005 are as follows:

Name	Place/country of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Citicomics Limited	Hong Kong	Ordinary HK\$2	100	Publishing
Culturecom Centre Limited	Hong Kong	Ordinary HK\$2	100	Property holding
Culturecom e-publication Limited	Hong Kong	Ordinary HK\$2	100	Development of electronic publication
Culturecom Enterprises Limited	Hong Kong	Ordinary HK\$2	100	Management services
Culturecom Holdings (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US\$2	100	Investment holding
Culturecom Limited	Hong Kong	Ordinary HK\$1,000	100	Investment holding and publishing
Culturecom Investments Limited	Hong Kong	Ordinary HK\$2	100	Investment holding and securities trading
Culture.com Technology Limited ("Culture.com")	Hong Kong	Ordinary HK\$2	100	Development of Chinese language computer processor
Culture.com Technology (BVI) Limited	BVI/Hong Kong	Ordinary US\$1	100	Investment holding
CultureKid i-shop (HK) Limited	Hong Kong	Ordinary HK\$2	100	Retailing and development of computer application software
Growlong Company Limited	Hong Kong	Ordinary HK\$10,000	100	Licensing
Culturecom Online Limited	Hong Kong	Ordinary HK\$2	100	Electronic publication
文傳漫畫設計(深圳)有限公司 (Note)	PRC	Registered HK\$1,000,000	100	Comics design and production
SNIC Technology Limited	Hong Kong	Ordinary HK\$50,000	100	Development of secure numerical internetwork information center
Winway H.K. Investments Limited ("Winway")	Hong Kong	Ordinary HK\$2	100	Investment holding and securities trading

Note: A wholly-owned foreign enterprise for a period of ten years commencing from 6 June 2000.

Except for Culturecom Holdings (BVI) Limited, which is directly held by the Company, all the other principal subsidiaries are indirectly held by the Company.

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results of assets or liabilities of the Group.

15. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand. In 2004 and 2003, the amounts were classified as non-current assets since the directors were in the opinion that the amounts would not be repaid within twelve months from the balance sheet date.

16. INTERESTS IN ASSOCIATES

	THE GROUP			THE COMPANY		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of net assets	12,171	22,205	45,273	—	—	—
Loans to associates	—	92,069	82,828	—	3,970	3,970
Allowances for loans to associates	—	(28,000)	(28,000)	—	—	—
	<u>12,171</u>	<u>86,274</u>	<u>100,101</u>	<u>—</u>	<u>3,970</u>	<u>3,970</u>
Market value of listed shares	<u>9,900</u>	<u>31,500</u>	<u>9,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

The loans are unsecured, interest free and repayable on demand. In 2004 and 2003, the amounts were classified as non-current assets since the directors were in the opinion that the amounts would not be repaid within twelve months from the balance sheet date.

Particulars of the Group's principal associates as at 31 March 2005 are as follows:

Name	Form of business structure	Country/ place of incorporation/ operation	Class of share held	Proportion of nominal value of issued share capital held by the Group %	Principal activities
Chinese 2 Linux (Holdings) Limited ("C2L")	Incorporated	BVI/Hong Kong	Ordinary	41	Development of Chinese language computer operating system
GlobalRes Group Limited	Incorporated	BVI/Hong Kong	Ordinary	30	Provision of computer and telecommunications services to travel agents
Q9 Technology Holdings Limited ("Q9 Technology") (Note)	Incorporated	Cayman Islands/ Hong Kong	Ordinary	24	Development, packing and retailing of the Chinese language encryption software
DNA Incorporated	Incorporated	Cayman Islands/ Hong Kong	Ordinary	34	Research and development of novel vaccines for veterinary infections diseases
Impact Lift Technology Limited	Incorporated	BVI/Hong Kong	Ordinary	20	Research and development, and holding of biofertiliser for vegetable production
The Universal.Com Technology Limited	Incorporated	Hong Kong	Ordinary	30	Publishing and development of electronic publication

Note: The shares of Q9 Technology Holdings Limited are listed on the Growth Enterprise Market of the Stock Exchange.

In May 2003, Winway, a wholly owned subsidiary of the Company, has placed 300,000,000 shares (the “Shares”) of Q9 Technology with TKR Finance Limited (“TKR Finance”) for safe custody and to facilitate management of such Shares. In June 2004, the Group 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 claimed it had security interests in the Shares. Winway had sought legal advice and had notified the provisional liquidator about its title in the Shares and demanded the return of the Shares from TKR Finance. Currently, Winway is positively seeking a feasible resolution and negotiating with the relevant parties to reclaim the Shares.

The above table lists the associates of the Group which principally affect the results of the Group or form a substantial portion of the Group’s interests in associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		
	2005	2004	2003
	HK\$’000	HK\$’000	HK\$’000
Share of net assets	740	1,878	2,626
Premium on formation of a jointly controlled entity	3,491	3,879	4,267
Less: Impairment loss recognised	(3,491)	–	–
	<u>740</u>	<u>5,757</u>	<u>6,893</u>

As at 31 March 2005, the Group had interests in the following jointly controlled entity:

Name of entity	Form of business structure	Country of registration/operation	Proportion of nominal value of registered capital held by the Group %	Principal activities
北京人教文傳信息技術有限公司	Sino-foreign equity joint venture	PRC	51	Sales of Chinese information infrastructure products

Details of the movement in premium on formation of a jointly controlled entity are as follows:

	2005	2004	2003
	HK\$’000	HK\$’000	HK\$’000
COST			
At 1 April	<u>4,655</u>	<u>4,655</u>	<u>4,655</u>
AMORTISATION AND IMPAIRMENT			
At 1 April	776	388	–
Amortised for the year	388	388	388
Impairment loss recognised	<u>3,491</u>	<u>–</u>	<u>–</u>
At 31 March	<u>4,655</u>	<u>776</u>	<u>388</u>
CARRYING AMOUNTS			
At 31 March	<u>–</u>	<u>3,879</u>	<u>4,267</u>

The premium on formation of a jointly controlled entity is amortised to the income statement on a straight-line basis over 12 years. Amortisation charge has been included in the amount reported as share of result of a jointly controlled entity in the consolidated income statement.

Due to continuous losses incurred by the jointly controlled entity, the directors recognised an impairment loss of HK\$3,491,000.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

18. INVESTMENTS IN SECURITIES

	Investment securities			Other investments			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
Non-current assets:									
Unlisted securities –									
Equity securities	1,385	1,385	3,385	–	–	–	1,385	1,385	3,385
Debt securities	–	–	1,200	–	–	–	–	–	1,200
	<u>1,385</u>	<u>1,385</u>	<u>4,585</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,385</u>	<u>1,385</u>	<u>4,585</u>
Current assets:									
Listed equity securities –									
Hong Kong	–	–	–	20,791	63,714	50,168	20,791	63,714	50,168
Overseas	–	–	–	445	434	82	445	434	82
	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>
Unlisted debt securities	–	–	–	1,800	1,800	–	1,800	1,800	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>23,036</u>	<u>65,948</u>	<u>50,250</u>	<u>23,036</u>	<u>65,948</u>	<u>50,250</u>
	<u>1,385</u>	<u>1,385</u>	<u>4,585</u>	<u>23,036</u>	<u>65,948</u>	<u>50,250</u>	<u>24,421</u>	<u>67,333</u>	<u>54,835</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>	<u>21,236</u>	<u>64,148</u>	<u>50,250</u>

19. INVENTORIES

The inventories of the Group represent finished goods which included an amount of HK\$578,000 (2004: HK\$14,286,000; 2003: HK\$8,395,000) carried at net realisable value at the balance sheet date.

20. 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:

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
0 – 60 days	7,360	5,979	6,422
61 – 90 days	183	582	916
Over 90 days	1,609	4,418	5,156
	<u>9,152</u>	<u>10,979</u>	<u>12,494</u>

21. AMOUNTS DUE FROM ASSOCIATES

The amounts are unsecured, interest free and repayable on demand.

22. TRADE CREDITORS

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

	THE GROUP		
	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	5,086	4,475	3,253
61 – 90 days	2,090	166	240
Over 90 days	2,469	841	2,554
	<u>9,645</u>	<u>5,482</u>	<u>6,047</u>

23. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments			Present value of minimum lease payments		
	2005	2004	2003	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable under a finance lease:						
Within one year	43	43	43	34	34	34
In the second to fifth years inclusive	21	64	106	16	50	84
	<u>64</u>	<u>107</u>	<u>149</u>	<u>50</u>	<u>84</u>	<u>118</u>
Less: Future finance charges	(14)	(23)	(31)	–	–	–
Present value of lease obligations	<u>50</u>	<u>84</u>	<u>118</u>	50	84	118
Less: Amount due from settlement within one year shown under current liabilities				(34)	(34)	(34)
Amount due after one year				<u>16</u>	<u>50</u>	<u>84</u>

The lease term in respect of the vehicles, furniture and equipment held under the finance lease is 5 years.

24. SHARE CAPITAL

	Number of shares			Share capital		
	2005 '000	2004 '000	2003 '000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each						
Authorised:						
At 1 April	4,000,000	4,000,000	4,000,000	400,000	400,000	400,000
Increase on 24 August 2004	2,000,000	—	—	200,000	—	—
At 31 March	<u>6,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>	<u>600,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:						
At 1 April	3,323,520	3,014,000	2,787,560	332,352	301,400	278,756
Exercise of share options (<i>Note</i>)	67,500	199,800	—	6,750	19,980	—
Exercise of warrants (<i>Note 25</i>)	70,580	109,720	226,440	7,058	10,972	22,644
At 31 March	<u>3,461,600</u>	<u>3,323,520</u>	<u>3,014,000</u>	<u>346,160</u>	<u>332,352</u>	<u>301,400</u>

Note: During the year, the subscription rights attaching to 1,000,000, 31,500,000 and 35,000,000 share options were exercised at subscription prices of HK\$0.264, HK\$0.265 and HK\$0.295 per shares respectively, resulting in the issue of 67,500,000 shares of HK\$0.10 each for a total consideration of approximately HK\$18,937,000.

25. WARRANTS

On 6 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 ("2005 Warrants") conferring rights to subscribe up to HK\$70,950,000 in aggregate in cash for shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.165 per share during the period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4 July 2003.

The net proceeds of the placing of approximately HK\$23,774,000 were used for general working capital of the Group.

During the year, registered holders of 70,580,000 units (2004: 109,720,000 units) of outstanding 2005 warrants exercised their rights to subscribe for 70,580,000 shares (2004: 109,720,000 shares) in the Company at HK\$0.165 per share.

On 31 March 2005, the Company had 249,700,000 units of outstanding 2005 Warrants conferring rights to subscribe up to approximately HK\$41,201,000 in cash for shares of HK\$0.10 each in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as of 31 March 2005, result in the issue of 249,700,000 additional shares of HK\$0.10 each in the Company.

26. SHARE OPTION SCHEME**(A) Share option scheme adopted on 15 June 1993 (“Old Option Scheme”)**

The major terms of the Old Option Scheme are summarised as follows:

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any employee or director of the Group.
- (iii) The maximum number of shares of the Company in respect of which share options might be granted under the Old Option Scheme must not exceed 10% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with the Company’s shares issued and issuable under any share option granted to the same participant under the Old Option Scheme, must not exceed 25% of the maximum shares issuable under the Old Option Scheme from time to time.
- (v) The exercisable period of a share option granted must not exceed a period of 10 years commencing on the date of grant.
- (vi) The acceptance of a share option, if accepted, must be made within 21 days from the date of grant with a non-refundable payment of HK\$10 from the grantee to the Company.
- (vii) The exercise price of a share option must be the higher of:
 - 80% of the average closing price of a share of the Company for the 5 trading days immediately preceding the grant; and
 - the nominal value of a share of the Company.
- (viii) On 21 August 2002, the Old Option Scheme was resolved by the shareholders of the Company to have been cancelled thereon. However, the share options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

(B) Share option scheme adopted on 21 August 2002 (“New Option Scheme”)

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 21 August 2002, the Company adopted the New Option Scheme to replace the Old Option Scheme. All the share options granted under the Old Option Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the Old Options Scheme. The major terms of the New Option Scheme are summarised as follows:

- (i) The purpose is to provide incentives to:
 - award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest (“Invested Entity”); and
 - recruit and retain high-calibre employees and attract human resources that are valuable to the Group.
- (ii) The participants included any employee, director, supplier, agent, consultant, adviser strategist, contractor, subcontractor, expert or customer of the Group and/or Invested Entity.

- (iii) The maximum number of shares of the Company in respect of which share options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The scheme mandate limit of the New Option Scheme was refreshed by the approval of the shareholders in the 2004 Annual General Meeting. At 31 March 2005, the total number of shares of the Company available for issue under the Company's New Option Scheme was 366,700,000 (2004: 100,200,000) shares, representing 10.59% (2004: 3.01%) of the issued share capital of the Company as at the date. However, the total maximum number of shares of the Company which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares of the Company in issue from time to time.
- (iv) The maximum number of shares of the Company in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding share options and the options cancelled) under any share option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares of the Company in issue from time to time.
- (v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors and provided in the offer of grant of share option.
- (vi) The exercise period should be any period fixed by the board of directors upon grant of the share option but in any event the share option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (viii) The exercise price of a share option must be the highest of:
- the closing price of a share of the Company on the date of grant which must be a trading day;
 - the average closing price of a share of the Company for the 5 trading days immediately preceding the date of grant; and
 - the nominal value of a share of the Company.
- (ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 20 August 2012.

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FINANCIAL INFORMATION OF THE GROUP

The following table discloses details of the Company's share options granted under the Old Option Scheme and the New Option Scheme and movements in such holdings:

Category of participants	Name of scheme	Date of grant	Exercisable period	Exercise price HK\$	Number of share options											
					Outstanding at					Outstanding at						
					Outstanding at 1.4.2002	Transferred during 2002/03	31.3.2003 and 1.4.2003	Granted during 2003/04	Exercised during 2003/04	Lapsed during 2003/04	31.3.2004 and 1.4.2004	Granted during 2004/05	Exercised during 2004/05	Lapsed during 2004/05	Outstanding at 31.3.2005	
															(note)	
Directors	Old Option Scheme	27.8.1999	27.8.1999 – 26.8.2009	0.264	12,000,000	–	12,000,000	–	–	–	12,000,000	–	(1,000,000)	–	11,000,000	
		3.3.2000	3.3.2000 – 2.3.2010	1.680	10,065,000	1,000,000	11,065,000	–	–	–	11,065,000	–	–	–	11,065,000	
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	11,000,000	–	–	11,000,000	–	–	–	11,000,000	
					22,065,000	1,000,000	23,065,000	11,000,000	–	–	34,065,000	–	(1,000,000)	–	33,065,000	
Employees	Old Option Scheme	3.3.2000	3.3.2000 – 2.3.2010	1.680	28,535,000	(1,000,000)	27,535,000	–	–	(2,500,000)	25,035,000	–	–	–	25,035,000	
	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	173,000,000	(124,800,000)	–	48,200,000	–	(10,500,000)	–	37,700,000	
		24.3.2005	24.3.2005 – 23.3.2015	0.295	–	–	–	–	–	–	71,000,000	–	–	–	71,000,000	
					28,535,000	(1,000,000)	27,535,000	173,000,000	(124,800,000)	(2,500,000)	73,235,000	71,000,000	(10,500,000)	–	133,735,000	
Others	New Option Scheme	19.12.2003	19.12.2003 – 18.12.2013	0.265	–	–	–	116,000,000	(75,000,000)	–	41,000,000	–	(21,000,000)	–	20,000,000	
		24.3.2005	24.3.2005 – 23.3.2015	0.295	–	–	–	–	–	–	262,000,000	(35,000,000)	–	–	227,000,000	
					–	–	–	116,000,000	(75,000,000)	–	41,000,000	262,000,000	(56,000,000)	–	247,000,000	
					50,600,000	–	50,600,000	300,000,000	(199,800,000)	(2,500,000)	148,300,000	333,000,000	(67,500,000)	–	413,800,000	

Note: The prices of the Company's shares as at immediately preceding the dates of the exercise of the share option at the respective exercise prices of HK\$0.265 and HK\$0.295 (being the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their respective exercise dates) were HK\$0.551 (2004: HK\$0.578) and HK\$0.290 (2004: nil) respectively.

Total consideration received during the year from employees and other participants for taking up the share options granted is amounted to HK\$27 (2004: HK\$98; 2003: nil).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recognised in the income statement in respect of the value of share options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

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27. RESERVES

	Share premium HK\$'000	Contribution surplus HK\$'000	Goodwill reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP									
At 1 April 2002	572,828	171,671	(62,948)	-	20,287	446	(325)	(530,205)	171,754
Exchange loss on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	18	-	18
Exercise of warrants	38,495	-	-	-	-	-	-	-	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	-	-	-	(18,690)	-	-	-	-
Gain on expiry of warrants	-	-	-	-	(97)	-	-	-	(97)
Net loss for the year	-	-	-	-	-	-	-	(149,362)	(149,362)
At 31 March 2003 and 1 April 2003	630,013	171,671	(62,948)	-	1,500	446	(307)	(679,567)	60,808
Exchange differences on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	170	-	170
Proceeds from issue of warrants, net of expenses	-	-	-	-	23,774	-	-	-	23,774
Exercise of warrants	7,132	-	-	-	-	-	-	-	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	-	-	-	(6,066)	-	-	-	-
Exercise of share options	32,967	-	-	-	-	-	-	-	32,967
Impairment loss recognised (note)	-	-	6,000	-	-	-	-	-	6,000
Net loss for the year	-	-	-	-	-	-	-	(72,467)	(72,467)
At 31 March 2004 and 1 April 2004	676,178	171,671	(56,948)	-	19,208	446	(137)	(752,034)	58,384
Exchange differences on translation of overseas operations not recognised in the income statement	-	-	-	-	-	-	7	-	7
Exercise of warrants	4,588	-	-	-	-	-	-	-	4,588
Transfer from other reserve to share premium due to exercise of warrants	3,902	-	-	-	(3,902)	-	-	-	-
Exercise of share options	12,187	-	-	-	-	-	-	-	12,187
Share issue expenses	(51)	-	-	-	-	-	-	-	(51)
Surplus on revaluation	-	-	-	30,990	-	-	-	-	30,990
Impairment loss recognised (note)	-	-	10,777	-	-	-	-	-	10,777
Net loss for the year	-	-	-	-	-	-	-	(162,931)	(162,931)
At 31 March 2005	696,804	171,671	(46,171)	30,990	15,306	446	(130)	(914,965)	(46,049)
Attributable to:									
Company and subsidiaries	696,804	171,671	(46,171)	30,990	13,806	446	(130)	(856,061)	11,355
Associates	-	-	-	-	1,500	-	-	(53,635)	(52,135)
A jointly controlled entity	-	-	-	-	-	-	-	(5,269)	(5,269)
	696,804	171,671	(46,171)	30,990	15,306	446	(130)	(914,965)	(46,049)

Note: Due to continuous losses incurred by an associate, the directors recognised an impairment loss of HK\$10,777,000 (2004: HK\$6,000,000).

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	Share premium HK\$'000	Contribution surplus HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1 April 2002	572,828	262,143	18,787	446	(676,539)	177,665
Exercise of warrants	38,495	–	–	–	–	38,495
Transfer from other reserve to share premium due to exercise of warrants	18,690	–	(18,690)	–	–	–
Gain on expiry of warrants	–	–	(97)	–	–	(97)
Net loss for the year	–	–	–	–	(150,878)	(150,878)
At 31 March 2003 and 1 April 2003	630,013	262,143	–	446	(827,417)	65,185
Proceeds from issue of warrants, net of expenses	–	–	23,774	–	–	23,774
Exercise of warrants	7,132	–	–	–	–	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	–	(6,066)	–	–	–
Exercise of share options	32,967	–	–	–	–	32,967
Net loss for the year	–	–	–	–	(67,253)	(67,253)
At 31 March 2004 and 1 April 2004	676,178	262,143	17,708	446	(894,670)	61,805
Exercise of warrants	4,588	–	–	–	–	4,588
Transfer from other reserve to share premium due to exercise of warrants	3,902	–	(3,902)	–	–	–
Exercise of share options	12,187	–	–	–	–	12,187
Share issue expenses	(51)	–	–	–	–	(51)
Net loss for the year	–	–	–	–	(124,437)	(124,437)
At 31 March 2005	<u>696,804</u>	<u>262,143</u>	<u>13,806</u>	<u>446</u>	<u>(1,019,107)</u>	<u>(45,908)</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the acquired subsidiaries and the nominal amount of the Company's share capital issued as consideration for the acquisition as at the date of the group reorganisation.

Other reserves of the Group represents the share of other reserve of an associate and proceeds from issue of warrants net of expenses and transferred to share premium due to exercise of warrants.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Other reserve of the Company represents the proceeds from issue of warrants net of expenses and transferred to share premium due to exercise of warrants.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at the balance sheet date, the Company has no reserves available for distribution to shareholders.

28. DEFERRED TAXATION

The followings are the deferred tax liability and asset recognised by the Group and movements thereon during the year:

	Accelerated tax depreciation <i>HK\$'000</i>	Estimated tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	1,825	(1,825)	–
	<u>1,825</u>	<u>(1,825)</u>	<u>–</u>
– as restated	1,825	(1,825)	–
Charge (credit) to income statement for the year	568	(568)	–
Release upon disposal of subsidiaries	(301)	301	–
	<u>(301)</u>	<u>301</u>	<u>–</u>
At 31 March 2003 and 1 April 2003	2,092	(2,092)	–
(Credit) charge to income statement for the year	(237)	237	–
Effect of change in tax rate charge (credit) to income statement for the year	197	(197)	–
	<u>197</u>	<u>(197)</u>	<u>–</u>
At 31 March 2004 and 1 April 2004	2,052	(2,052)	–
(Credit) charge to income statement for the year	(62)	62	–
	<u>(62)</u>	<u>62</u>	<u>–</u>
At 31 March 2005	<u>1,990</u>	<u>(1,990)</u>	<u>–</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in Statement of Standard Accounting Practice 12 (Revised).

At 31 March 2005, the Group has unused estimated tax losses of HK\$466,798,000 (2004: HK\$359,639,000; 2003: HK\$304,325,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$11,371,000 (2004: HK\$11,726,000; 2003: HK\$13,075,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$455,427,000 (2004: HK\$347,913,000; 2003: HK\$291,250,000) due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

29. RETIREMENT BENEFITS SCHEMES

The Group operates Mandatory Provident Fund Scheme (“MPF Scheme”) under the rules and regulations of the Mandatory Provident Fund Authority for all qualifying employees of its Hong Kong subsidiaries. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contributions is matched by employees.

The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of their current employees to the pension scheme to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of services in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

The total cost charged to income statements of HK\$677,000 (2004: HK\$855,000; 2003: HK\$1,742,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with certain related parties:

	Sales income received from related companies			Rental income received from related companies			Management fee received from related companies			Other income received from related companies			Other expense paid to related companies			Promotional fee paid to related companies			Amounts due from related companies			Amounts due to related companies		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	-	122	-	639	730	634	120	120	30	61	-	-	1,675	-	-	-	1,260	-	75,796	64,069	-	-	-	-
Subsidiaries of a shareholder	-	-	-	295	396	562	-	-	-	43	-	-	20	-	-	-	-	-	7,640	7,668	6,199	467	488	975
Jointly controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,540	82	-	-	-	-

All the above transactions were carried out at terms mutually agreed by the relevant parties.

In addition, the Group provided a guarantee to Transmeta Corporation ("Transmeta") in respect of the payment obligations of service fees of China Ever Limited, a wholly-owned subsidiary of C2L, the associate of the Company. The Group did not receive any fee from China Ever Limited for the guarantee provided.

The amounts due from and to related companies are unsecured, interest free and repayable on demand.

31. OPERATING LEASE COMMITMENTS**The Group as lessee**

At 31 March 2005, the Group had commitments for future minimum lease payment in respect of rented premises which fall due as follows:

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	6	552	727
In the second to fifth year inclusive	-	210	161
	<u>6</u>	<u>762</u>	<u>888</u>

Operating lease payments represent rentals payable by the Group for its office premise. Lease is negotiated for an average term of two years and rentals is fixed for an average of two years.

The Group as lessor

Property rental income earned during the year was HK\$4,107,000 (2004: HK\$3,115,000; 2003: HK\$2,441,000).

At 31 March 2005, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	3,188	2,372	1,894
In the second to fifth year inclusive	519	1,412	1,363
	<u>3,707</u>	<u>3,784</u>	<u>3,257</u>

Lease is negotiated for an average term of two years.

At the balance sheet date, the Company has no operating lease commitments.

32. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

- (a) At 31 March 2005, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2004: HK\$11,967,000; 2003: HK\$11,967,000) in relation to a guarantee given to the plaintiff. Based on the advice of its legal adviser, the directors are of the view that the Company has meritorious grounds to defence. Accordingly, no provision for this amount has been provided in the financial statements.
- (b) During the year ended 31 March 2004, the Company and eForce Holdings Limited (“eForce”), on a joint and several basis, provided a guarantee to Transmeta in respect of the payment obligations of service fees of China Ever Limited. Pursuant to the agreement between the Company, eForce, China Ever Limited and Transmeta, China Ever Limited shall pay a service fee of US\$66,000 per month to Transmeta for a term of 20 months from 22 November 2003. At the balance sheet date, China Ever Limited had outstanding balance of US\$66,000 with Transmeta.

33. CAPITAL COMMITMENTS

	THE GROUP		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the capital expenditure on the development costs	4,708	1,404	–

34. POST BALANCE SHEET EVENTS

(1) Purchase of assets and licence of technology

Subsequent to the balance sheet date, the Group has entered into the following transactions:

(a) Purchase of assets

On 27 May 2005, Culture.com, a wholly owned subsidiary of the Company, entered into an asset purchase agreement (the “Asset Purchase Agreement”) with Transmeta pursuant to which Culture.com agreed to purchase the assets and technology including all intellectual property rights of Crusoe Microprocessor and the Crusoe trademark and any similar rights for an aggregate cash consideration of US\$5,000,000 (equivalent to approximately HK\$39,000,000).

(b) Licence of technology

On 27 May 2005, Culture.com entered into the licence agreement (the “Licence Agreement”) with Transmeta pursuant to which Transmeta agreed to grant to Culture.com (i) a worldwide, exclusive royalty-bearing licence to use the documentation, reference designs, tools and technical manufacturing guidelines, design information and technical documentation for the manufacture and sale of the Crusoe Microprocessor and (ii) a royalty-bearing licence to manufacture and sell the Efficeon Microprocessor in China.

Culture.com shall pay an one-off licence fee in the amount of US\$10,000,000 (equivalent to approximately HK\$78,000,000) and an on-going royalty based on a set percentage of the Group’s net sales of the Crusoe Microprocessor and the Efficeon Microprocessor.

The consideration of abovementioned transactions (a) and (b) are originally intended to be financed by placing of convertible bonds (the “Convertible Bonds”) up to an aggregate principal amount of HK\$300,000,000. The Convertible Bonds will carry a right to convert into new shares at the conversion price of, subject to adjustment, HK\$0.60 per share from the expiry of six months from the date of issue of the Convertible Bonds to the day preceding the fifth anniversary of date of issue of Convertible Bonds. 500,000,000 shares will be allotted and issued upon full conversion of the Convertible Bonds.

However, as at 27 June 2005 being the time stipulated in the Asset Purchase Agreement and the Licence Agreement for payment of the respective sums into escrow, the placing of the Convertible Bonds had not yet been completed. As such, the Group sought and obtained alternative short term financing and used the Company's working capital to satisfy the total balances of HK\$117,000,000.

The placing of the Convertible Bonds is still proceeding and the net proceeds of the placing are now intended to firstly repay the short term financing and the remaining balance of which will be retained as the Company's working capital.

Details of the short term financing as mentioned above raised by the Group are as follows:

Lender	Amount advanced HK\$	Interest rate	Duration of advance	Security	Lender's relationship with the Group
Cheung Wai Tung	29,000,000	Nil	No fixed term	Nil	Chairman and executive director of the Company
Overseas Associates Limited	70,000,000	8% per annum	3 months	Lien over title deeds to the Group's property	Independent third party
	<u>99,000,000</u>				

Details of the above transactions were set out in the Company's announcements dated 7 June 2005 and 28 June 2005.

(2) Exercise of warrants

Subsequent to the balance sheet date, 247,380,000 units of outstanding 2005 Warrants were exercised to subscribe for 247,380,000 shares in the Company at HK\$0.165 per share. The net proceeds were amounted to approximately HK\$40,817,000. The remaining 2,320,000 units of 2005 Warrants were expired on 7 July 2005.

2. INDEBTEDNESS AS AT 31 JULY 2005

At the close of business on 31 July 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$89,450,000. They included (i) interest-bearing short term loan of HK\$70,000,000, which was secured by the leasehold land and building and investment properties of the Group with total carrying value of HK\$99,684,000 as at 31 March 2005; (ii) unsecured short term loans of approximately HK\$18,944,000; (iii) amounts due to related companies of approximately HK\$467,000; and (iv) obligation under finance leases of approximately HK\$39,000.

The Company had contingent liabilities in respect of a pending litigation as a defendant relating to a claim of approximately HK\$12 million as at 31 March 2005, details of which are set out in the paragraph headed “Litigation” in Appendix II to this circular. In the opinion of the Directors, the Company had meritorious grounds to defend and accordingly, no provisions for this amount has been provided in the financial statements.

Save as aforesaid or as otherwise disclosed therein and intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 31 July 2005 any mortgages, charges, debentures, or other loan capital or bank overdraft, loans debts securities or similar indebtedness, or any obligation under finance leases or any guarantees or other material contingent liabilities.

Foreign currency amounts have for those purposes been translated into Hong Kong dollars at appropriate rates prevailing at the close of business on 31 July 2005.

The Directors have confirmed that the Group has not incurred any material indebtedness, charges and contingent liabilities of the Group since 31 July 2005.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, being the date to which the latest published audited accounts of the Group were made up of.

4. WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of the opinion that, following the completion of the Asset Purchase Agreement and the Licence Agreement and taking into account the present available loan facilities, internal resources and in absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements.

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 executives 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)

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
Mr. Chu	Beneficial owner	Personal interest	12,000,000

All interests stated above represent long positions

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\$6,000,000 as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Company) have been entered into by members of the Group within two years immediately preceding the date of this circular which are or may be material:

- (a) the Asset Purchase Agreement;
- (b) the Licence Agreement;
- (c) the CB Placing Agreement;
- (d) the Warrants Placing Agreement; and
- (e) the subscription agreement between Culture.com technology and REXCAPITAL dated 30 August 2005 in relation to the subscription by REXCAPITAL of 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 of such subscription agreement, at a consideration equivalent to the lower of the sum of HK\$73,500,000 or 10% of the valuation value of such new shares in Culture.com Technology.

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 Directors confirm that none of them has any interest, direct or indirect, in any assets which have been, since 31 March 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or, are proposed to be acquired or disposed of by or leased to any member of the Group.

The Directors confirmed that there is no contract or arrangement subsisting at the date of this circular in which any of them is materially interested and which is significant in relation to the business of the Group.

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

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 12 Floor, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong, during normal business hours up to and including 27 October 2005 and at the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Group for the three financial years ended 31 March 2003, 2004 and 2005;
- (c) the material contracts referred to under the section headed “Material contracts” in this Appendix; and
- (d) the circular of the Company dated 26 September 2005.

NOTICE OF SGM



CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 343)

NOTICE IS HEREBY GIVEN THAT a special general meeting of Culturecom Holdings Limited (the “Company”) will be held at 10:30 a.m. on Thursday, 27 October 2005 at The Penthouse, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the asset purchase agreement dated 27 May 2005 (the “Asset Purchase Agreement”) entered into between Culture.com Technology Limited and Transmeta Corporation (a copy of which has been produced to the meeting marked “A” and initialed by the Chairman for the purpose of identification) and the licence agreement dated 27 May 2005 (the “Licence Agreement”) entered into between Culture.com Technology Limited and Transmeta Corporation (a copy of which has been produced to the meeting marked “B” and initialed by the Chairman for the purpose of identification) and the transactions respectively contemplated thereunder, be and are hereby approved, confirmed and ratified and the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the transactions respectively contemplated under the Asset Purchase Agreement and the Licence Agreement.”

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

Hong Kong, 30 September 2005

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

* for identification purpose only

NOTICE OF SGM

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent and vote on his behalf at a general meeting of the Company. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor, or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
3. The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority (if any) shall be delivered to the principal place of business of the Company in Hong Kong at 12 Floor, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.
4. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened.
5. A form of proxy for use at the meeting is enclosed.