CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 343)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2006

RESULTS

The Board of Directors (the "Directors") of Culturecom Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2006 together with the comparative figures for the corresponding year of 2005 are as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Notes	**2006** **HK$'000**	2005 HK$'000 (restated)
Turnover	3	**46,221**	51,354
Cost of sales		**(32,018)**	(37,204)
Gross profit		**14,203**	14,150
Other income		**4,037**	2,887
Administrative expenses		**(87,249)**	(81,713)
Amortisation of development costs		**(17,105)**	(23,818)
Research and development expenditure		**(4,362)**	(8,819)
Allowances for trade and other debtors		**(6,842)**	(8,166)
Net unrealised loss on other investments		**–**	(42,324)
Decrease in fair value of held-for-trading investments		**(404)**	–
Share of results of associates		**(8,240)**	(10,034)
Share of result of a jointly controlled entity		**(740)**	(1,526)
Gain on disposal of subsidiaries		**290**	–
Increase in fair value of investment properties		**2,736**	–
Finance costs	4	**(3,893)**	(9)
Write back of impairment loss previously recognised in respect of prepaid lease payments and property, plant and equipment		**–**	23,000
Allowances for amounts due from associates		**(33,704)**	(5,591)
Allowance for amount due from a jointly controlled entity		**(2,234)**	–
Impairment loss recognised in respect of development costs		**(15,850)**	(6,700)
Impairment loss recognised in respect of goodwill in reserve		**–**	(10,777)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity		**–**	(3,491)
Loss before taxation	5	**(159,357)**	(162,931)
Taxation	6	**–**	–
Loss for the year attributable to equity holders of the Company		**(159,357)**	(162,931)
Loss per share – basic	7	**HK(4.34) cents**	HK(4.84) cents

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment		**31,305**	36,275
Prepaid lease payments		**25,059**	25,394
Investment properties		**57,836**	56,015
Development costs		**–**	32,955
Interests in associates		**3,931**	12,171
Interest in a jointly controlled entity		**–**	740
Amounts due from associates		**21,739**	–
Intangible asset – club memberships		**1,385**	–
Investments in securities		**–**	1,385
		141,255	164,935
Current assets			
Inventories		**143**	3,595
Trade debtors	8	**6,568**	9,152
Prepaid lease payments		**335**	335
Other debtors, deposits and prepayments		**10,227**	23,151
Amounts due from fellow subsidiaries of an associate		**–**	7,640
Amount due from a jointly controlled entity		**–**	1,540
Amounts due from associates		**30,898**	75,796
Taxation recoverable		**96**	62
Held-for-trading investments		**24,552**	–
Investments in securities		**–**	23,036
Bank balances and deposits with other financial institutions		**19,536**	15,194
		92,355	159,501
Current liabilities			
Trade creditors	9	**7,363**	9,645
Other creditors and accrued charges		**11,912**	14,163
Amounts due to fellow subsidiaries of an associate		**33**	467
Obligations under finance leases – amount due within one year		**48**	34
		19,356	24,309
Net current assets		**72,999**	135,192
		214,254	300,127
Capital and reserves			
Share capital		**373,398**	346,160
Reserves		**(162,586)**	(49,388)
		210,812	296,772
Non-current liabilities			
Obligations under finance leases – amount due after one year		**103**	16
Deferred tax liabilities		**3,339**	3,339
		3,442	3,355
		214,254	300,127

Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the New HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the New HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations". The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 April 2005. Goodwill previously recognised in reserves amounting to HK$46,171,000 has been transferred to the Group's accumulated losses on 1 April 2005. Comparative figures for 2005 have not been restated.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted prior to 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 or vested before 1 April 2005.

The effect of the changes in the accounting policy has resulted in the increase of the net loss for the current year being the recognition of share based payments for the current year, and a corresponding increase to share option reserve (see note 2 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for the current and prior accounting periods. The principal effect resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Up to 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" and "other investments". "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1 April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" is measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group classified and measured its equity and debt securities in accordance with the requirements of HKAS 39. The Group has reclassified its club memberships which were previously grouped under investments in securities to "Intangible assets - club memberships" amounting to HK$1,385,000 on 1 April 2005. The other investments as reported on 31 March 2005 amounting to HK$23,036,000 were reclassified to held-for-trading investments on 1 April 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of leasehold land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2 for the financial impact).

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The amount held in investment property revaluation reserve at 1 April 2005 has been transferred to the Group's accumulated losses (see note 2 for the financial impact).

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC)-Interpretation 21 "Income taxes – recovery of revalued non-depreciable assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC)-Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2005 have been restated (see note 2 for the financial impact).

2. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 1 on the results for the current year and prior year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in depreciation of property, plant and equipment (included in administrative expenses)	**(335)**	(335)
Amortisation of prepaid lease payments (included in administrative expenses)	**335**	335
Increase in fair value of investment properties	**(2,736)**	–
Equity-settled share-based expenses	**1,249**	–
Decrease in loss for the year	**(1,487)**	–

The cumulative effect of the application of the New HKFRSs on the balance sheet as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 Originally stated HK$'000	Retrospective adjustments HK$'000	As at 31 March 2005 Restated HK$'000	Prospective adjustments HK$'000	As at 1 April 2005 Restated HK$'000
Balance sheet items					
ASSETS AND LIABILITIES					
Impact on HKAS 17					
Property, plant and equipment	62,004	(25,729)	36,275	–	36,275
Prepaid lease payments	–	25,729	25,729	–	25,729
Impact on HKAS 39					
Investments in securities	24,421	–	24,421	(24,421)	–
Intangible asset-club memberships	–	–	–	1,385	1,385
Held-for-trading investments	–	–	–	23,036	23,036
Impact of HK(SIC)-INT 21					
Deferred tax liabilities	–	3,339	3,339	–	3,339
RESERVES					
Impact of HKFRS 3					
Goodwill reserve	(46,171)	–	(46,171)	46,171	–
Impact of HKAS 40					
Investment property revaluation reserve	30,990	(3,339)	27,651	(27,651)	–
Impact of HKAS 40, HKFRS 3 and HK(SIC)-INT 21					
Accumulated losses	(914,965)	–	(914,965)	(18,520)	(933,485)

The Group has not early applied the following new standards, interpretations and amendments that have been issued (the "2007 New Standards").

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives 6

1 Effective for accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2006.
3 Effective for accounting periods beginning on or after 1 December 2005.
4 Effective for accounting periods beginning on or after 1 March 2006.
5 Effective for accounting periods beginning on or after 1 May 2006.
6 Effective for accounting periods beginning on or after 1 June 2006.

The Group has commenced considering the potential impact of the 2007 New Standards, and determined that except for HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts", the management anticipates the application of the 2007 New Standards will have no material impact on the Group's financial statements.

HKAS 39 and HKFRS 4 (Amendments) requires financial guarantee contracts which are within the scope of HKAS 39 to be measured at fair value on initial recognition. The management is looking for the experts to assess the fair value of the financial guarantee contract and determined that it is not yet in a position to reasonably ascertain how the amendment may affect the results of operations and financial position of the Group are prepared and presented.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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	– rental income from investment properties

The Directors consider that revenue arising from rental income of investment properties, which contributes nearly 10% to the Group's total revenue should be included in turnover to provide a more meaningful analysis of the Group's revenue and principal activities. Accordingly, the comparative figures have been restated to conform with the current year's presentation.

Business segments

Segment information about business is presented below:

Income statement for the year ended 31 March 2006

	Publishing *HK$'000*	Chinese information infrastructure *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Turnover	41,731	412	4,078	46,221
Segment results	5,192	(73,026)	6,612	(61,222)
Unallocated expenses				(49,614)
Share of results of associates				(8,240)
Share of result of a jointly controlled entity				(740)
Finance costs				(3,893)
Gain on disposals of subsidiaries				290
Allowances for amounts due from associates				(33,704)
Allowance for amount due from a jointly controlled entity				(2,234)
Loss before taxation				(159,357)
Taxation				–
Loss for the year				(159,357)

Balance sheet at 31 March 2006

	Publishing *HK$'000*	Chinese information infrastructure *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
ASSETS				
Segment assets	19,288	21,886	58,097	99,271
Interests in associates				3,931
Unallocated corporate assets				130,408
Consolidated total assets				233,610
LIABILITIES				
Segment liabilities	9,370	5,412	646	15,428
Unallocated corporate liabilities				7,370
Consolidated total liabilities				22,798

Other information for the year ended 31 March 2006

	Publishing *HK$'000*	Chinese information infrastructure *HK$'000*	Investment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Additions to property, plant and equipment	4	176	–	288	468
Amortisation of development costs	–	16,595	–	510	17,105
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation of property, plant and equipment	764	3,263	–	2,186	6,213
Allowances for trade and other debtors	344	283	450	5,765	6,842
Impairment loss recognised in respect of development costs	–	15,850	–	–	15,850

Income statement for the year ended 31 March 2005

	Publishing *HK$'000*	Chinese information infrastructure *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000* (restated)
Turnover	47,010	237	4,107	51,354
Segment results	1,291	(98,339)	3,907	(93,141)
Unallocated expenses				(72,139)
Share of results of associates				(10,034)
Share of result of a jointly controlled entity				(1,526)
Finance costs				(9)
Write back of impairment loss previously recognised in respect of prepaid lease payments and property, plant and equipment				23,000
Allowances for amounts due from associates				(5,591)
Impairment loss recognised in respect of premium on formation of a jointly controlled entity				(3,491)
Loss before taxation				(162,931)
Taxation				–
Loss for the year				(162,931)

Balance sheet at 31 March 2005

	Publishing *HK$'000*	Chinese information infrastructure *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000* (restated)
ASSETS				
Segment assets	21,093	73,008	56,244	150,345
Interests in associates				12,171
Interest in a jointly controlled entity				740
Unallocated corporate assets				161,180
Consolidated total assets				324,436
LIABILITIES				
Segment liabilities	14,997	3,461	646	19,104
Unallocated corporate liabilities				8,560
Consolidated total liabilities				27,664

Other information for the year ended 31 March 2005

	Publishing	Chinese information infrastructure	Investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (restated)
Additions to property, plant and equipment	17	918	–	229	1,164
Additions to development costs	–	17,916	–	–	17,916
Amortisation of development costs	–	23,564	–	254	23,818
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation of property, plant and equipment	866	3,769	–	2,930	7,565
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

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

	Turnover	
	2006	2005
	HK$'000	*HK$'000* (restated)
Hong Kong	**45,959**	51,354
PRC	**262**	–
	46,221	51,354

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	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000*
Hong Kong	**102,371**	158,222	**105**	18,809
PRC	**831**	5,034	**75**	42
Unallocated	**130,408**	161,180	**288**	229
	233,610	324,436	**468**	19,080

4. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on finance leases	**12**	9
Interest on other borrowings wholly repayable within five years	**3,881**	–
	3,893	9

5. LOSS BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging (crediting):		
Staff and directors' costs	**29,531**	28,076
Auditors' remuneration	**900**	835
Write-down of inventories	**3,786**	14,294
Amortisation of prepaid lease payments	**335**	335
Depreciation of property, plant and equipment	**6,213**	7,087
Cost of inventories recognised as expenses	**31,816**	37,004
Loss on disposal of property, plant and equipment	**60**	219
Operating lease rentals in respect of rented premises	**1,763**	1,533
Gain on disposal of held-for-trading investments	**(273)**	–
Net realised loss on investments in securities	**–**	342
Interest income	**(922)**	(328)
Dividend income	**(85)**	(82)

6. TAXATION

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

7. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the loss for the year of HK$159,357,000 (2005: HK$162,931,000) and the weighted average number of 3,670,446,000 (2005: 3,366,259,000) 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 loss per share.

The following table summarises the impact on basic loss per share for the year as a result of application of New HKFRSs:

	Impact on basic loss per share	
	2006	2005
	HK cents	*HK cents*
Figures before adjustments	**4.38**	4.84
Adjustments arising from changes in accounting policies (see note 2)	**(0.04)**	–
	4.34	4.84

8. 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:

	2006	2005
	HK$'000	*HK$'000*
0 – 60 days	**4,976**	7,360
61 – 90 days	**228**	183
Over 90 days	**1,364**	1,609
	6,568	9,152

The directors consider that the carrying amounts of trade debtors approximate to their fair values.

9. TRADE CREDITORS

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

	2006	2005
	HK$'000	*HK$'000*
0 – 60 days	**4,229**	5,086
61 – 90 days	**1,233**	2,090
Over 90 days	**1,901**	2,469
	7,363	9,645

The directors consider that the carrying amounts of trade creditors approximate to their fair values.

DIVIDENDS

The Board of Directors has resolved not to declare any final dividend for the year ended 31 March 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year ended 31 March 2006, the Group's consolidated net loss attributable to shareholders decreased by 2% to approximately HK$159,357,000 as compared to that of last year. The loss per share for the year was HK4.34 cents (2005: HK4.84 cents). The analysis of the income statement is as follows:

(i) Turnover

The Group's overall turnover for the year ended 31 March 2006 decreased approximately by HK$5,133,000 to approximately HK$46,221,000 over last year, of which approximately HK$41,731,000, HK$412,000 and HK$4,078,000 (2005: HK$47,010,000, HK$237,000 and HK$4,107,000) were attributable to our business of comics publication, Chinese information infrastructure and rental income from investment properties respectively.

(ii) Administrative expenses

The administrative expenses of the Group for the year was mainly due to a legal claim of HK$7,500,000 in relation to a guarantee for printing charges which has been accounted for in the financial statement under review.

(iii) Finance costs

The finance costs of approximately HK$3,893,000 for the year was mainly the result of interest expenses related to the secured borrowing of HK$70,000,000 obtained by the Group in June 2005 for the balance payment of the asset purchase agreement and licence agreement which have been terminated in February 2006.

(iv) Allowances for amounts due from associates and amount due from a jointly controlled entity

Due to the continuous losses incurred by the associated companies, additional allowances for amounts due from associates was made in the amount of approximately HK$33,704,000 (2005: HK$5,591,000) for the year. The continuous losses incurred by a jointly controlled entity in the PRC resulting in an allowance for amount due from a jointly controlled entity of approximately HK$2,234,000 (2005: Nil) accounted for the year.

(v) Development cost of I.T. Projects

The amortization of development cost amounted to approximately HK$17,105,000 (2005: HK$23,818,000) and the balance of development cost of approximately HK$15,850,000 was fully provided in the income statement. In addition, research and development expenditures charged directly as expenses during the year amounted to approximately HK$4,362,000 (2005: HK$8,819,000).

At 31 March 2006, the Group's net asset value was HK$210,812,000 and net asset value per weighted average number of 3,670,446,000 shares of the Company was approximately HK$0.06 (2005: HK$0.09).

Convertible Bonds

On 2 June 2005, the Company entered into a placing agreement with a placing agent, pursuant to the placing agreement, the placing agent conditionally agreed to place on a best effort basis the convertible bonds of the Company up to an aggregate principal amount of HK$300,000,000. The convertible bonds will carry a right to convert into new shares of the company at the conversion price of, subject to adjustment, HK$0.6 per share. Subsequent to the alternative financing obtained from a director and an independent third party in June 2005, the Company decided to terminate the placing of convertible bonds by mutual agreement with the placing agent with effect from 29 July 2005.

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK$36,000,000 convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK$36,000,000 to be issued by the Company. The conversion price of Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively "Convertible Bonds") is HK$0.1 per new ordinary share of HK$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds are expected to be approximately HK$34,800,000 and will be used as general working capital. The placing of the Tranche 1 Convertible Bonds is expected to be completed on or before 31 July 2006.

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 the Company at an initial subscription price of HK$0.165 per shares during the two years period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4 July 2003.

During the year up to the expiry date of the 2005 Warrants, 247,380,000 warrants had been exercised and the Company received the net proceeds of approximately HK$40,817,000 from the exercise of the warrants.

On 18 August 2005, the Company entered into a placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants ("2007 Warrants") conferring rights to subscribe up to HK$113,520,000 in cash for sales of the Company at an initial subscription price of HK$0.172 per share during the two years period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of 2007 Warrants was completed on 28 September 2005. The net issue proceeds of the placing of about HK$24,145,000 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.

During the year, no registered holders of 2007 Warrants exercised their rights to subscribe for the Company's shares.

Purchase of Assets and Licence of Technology

On 27 May 2005, the Group and Transmeta Corporation signed the Asset Purchase Agreement and the Licence Agreement ("the Agreements"), whereby the Group should (i) purchase the Acquired Crusoe Assets and Technology for US$5,000,000; and (ii) be licensed to manufacture and sell the Efficeon Microprocessor and to use the Manufacturing Tools (for manufacture and sale of the Crusoe Microprocessor) for US$10,000,000 plus on-going royalty. The upfront payments of US$15,000,000 were made in June 2005, and held in the escrow account of an independent financial institution. On 27 October 2005, the subject major transaction of the Company was approved and passed as an ordinary resolution by the shareholders of the Company at the special general meeting of the Company. In early February 2006, the Company was advised that the necessary U.S. technology export control approvals could not be obtained for the Agreements within the time frame necessary to satisfy the required commercial requirements. As a result, the Company agreed with Transmeta Corporation to mutually terminate the conditional Agreements and a Mutual Termination Agreement was entered into on 7 February 2006. After termination, the upfront payments had been refunded by the escrow agent on 14 February 2006.

Issue of Shares of Culture.com Technology Limited

On 30 August 2005, Culture.com Technology Limited ("Culture.com Technology") entered into a conditional subscription agreement with REXCAPITAL International Holdings Limited ("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 ("Subscription Shares") 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. At the date of completion, the Subscription Shares represented 10% of the enlarged issue share capital of Culture.com Technology. As the parties were unable to appoint a suitable professional consultant to prepare the valuation report, the valuation value had not yet been determined and the valuation report had not yet been issued, the conditions to the subscription agreement therefore could not be fulfilled or waived on or before the extended Long Stop Date of 15 February 2006. Therefore, the subscription agreement had lapsed and ceased to have any further effect from 16 February 2006.

Pledge of Assets

A short term borrowing of HK$70,000,000 secured by legal charge over the leasehold land and building and investment properties of the Group has been discharged on 28 February 2006.

Liquidity and Financial Resources

As at 31 March 2006, the Group had bank and deposits with other financial institutions balances in aggregate of approximately HK$19,536,000 and held-for-trading investments of approximately HK$24,552,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 31 March 2006, the Group had a net current asset of approximately HK$72,999,000 (31 March 2005: HK$135,192,000) and a current ratio of 4.77 (31 March 2005: 6.56) The Group's total liabilities as at 31 March 2006 amounted to approximately HK$22,798,000 and represented approximately 10.81% (31 March 2005: 9.32%) to shareholders' equity.

In view of the above, the Directors believe that the Group will have sufficient liquidity to finance its daily operation, and the net proceeds from the placing of convertible bonds and the exercise of 2007 Warrants in the future would further strengthen the financial position of the Group.

Employment and Remuneration Polices

As at 31 March 2006, the Group had a total of 139 employees of which 61 are based in Hong Kong, 38 in Macau and 40 in the PRC. Total staff costs incurred during the year amounted to approximately HK$29,531,000 (2005: HK$28,076,000). Remuneration packages are maintained at competitive level and reviewed by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.

Business Review

In recent years, year-by-year soaring investment risks pertaining to the information technology (IT) sector have dampened the IT investment sentiments in the capital market. Despite that China has delivered a strong demand for IT core technologies, however, without a favorable investment environment for core infrastructure technologies of prolonged investment cycles and capital intensive natures (including software operating systems and hardware core CPU), individual single effort in such aspect was seemingly without any substantial strengths, and somehow was cruelly but factually impracticable. With gradual withdrawals of other IT players, under prevailing conditions, it seemed to us that more fruitful effects may be gained by being a trend-follower of engaging in processed or sub-contracting segments as our counterparties. In midst of such an environment, it is an indispensable part of our protection policy to mitigate risks through a healthy and zero-debt corporate structure.

The Group has adhered itself to a Chinese culture-cored technologies since the joining of Mr. Chu Bong Foo. A micro-typed "Chinese Character Generating Engine" (CCGE), representing the essence of years of efforts and the basis of the "genetic philosophy of Chinese characters" of Mr. Chu, was rolled out with an envisaged embedment into any and all kinds of hardware or CPU for smooth picturing of all Chinese characters, including being a free and unrestricted access tool for the reading and writing of literature books of Chinese history, heralding an end to the cumbersome bottle neck in tackling Chinese characters. On this basis, a new horizon will be explored for the Chinese intelligent IT technologies.

In 2005, the volatility of the entire IT market was substantially out of the majority professionals' expectation. Both hardware and software markets were no exceptions to unexpectedly high risks. The year marked a year of tough challenges for our technological business development. The Group entered into the relevant agreements with Transmeta Corporation in respect of the acquisition of Crusoe CPU assets and technologies as well as the licensing of the production and sale of Efficeon CPU in China in May 2005, and an approval for such transaction was granted at the special general meeting held in October 2005. Notwithstanding, given the sophisticated procedures for advanced technology exports and the potentially excessive risks for the Group in the process of the acquisition, the Group decided not to proceed with the acquisition by withdrawing all acquisition funds after due reassessment and repeated researches by the Group's Board of Directors and professional consultants.

Such acquisition transaction represented the first transaction of its kind in the history of the United States. The Group has taken a path that goes through a nearly three-year planning and preparation process for such project. Due to the fact that such acquisition was eventually in vain, it was apparent to the Group that certain adjustments have to be made to our development plans of IT core technologies and the related asset investments. Appropriate write-offs and postponements should be made to high-risk technologies and assets according to practicable accounting standards in order to maximize cost and expense reductions. Our vital mission is to sustain a zero-debt condition, sufficient cash reserve and sound status.

On the other side, despite of unsuccessful acquisition, our self-developed CCGE technology has aroused far-reaching responses from the United States. Specifically, fresh know-how and new insights into CCGE technology and its application were enlightened amongst individuals from US government related institutions, some university research institutions and certain sizeable technological companies. In addition, CCGE embedded technology was proposed to be used in the inner cores of operating systems (kernel), CPU and hardware levels, and to be effectively applied in micro-sized laptop devices and intelligent search engines.

Development of Technological Business

In light of rapidly changing IT investment environment, extraordinary political sentiment, unpredictable international trades and uncertain export limitations, the Group has always promptly kept itself abreast of the ever evolving technological advancements by making unprecedented determination towards the consolidation of the resources and portfolio mix in respect of technological products. Our ongoing projects are targeted to create shareholders' values, and projects without effective shareholders' returns will be recognized as non-core items. Non-core assets will be ceased, terminated, merged or transferred.

As to the technological development of CCGE, the Group has completed "Cangjie Version 6 Searching and Retrieval System". Capitalizing on years of research results on literatures and history made by Beijing authorities, the system is capable of providing a more comprehensive platform for the reading and writing of all ancient literature history. Apart from bronze characters and tortoise bone scripts, the system was embodied with a total of over 78,000 characters, and a conversion list for GB, Big5 and Unicode codes as well as an internal conversion list for traditional and simplified characters within Cangjie codes. The roll out of this unified version of traditional and simplified Cangjie represented a gradual convergence of the traditional and simplified characters. This implies that users can just instantly produce any Chinese characters, whether in their traditional or simplified forms, which come to their minds. In this regard, the traditional-character-based computer platforms will be gradually compatible of detecting simplified characters which co-exist in traditional forms, thus resolving the non-convertibility problems for characters existing in both traditional and simplified forms. In the Group's belief, regarding the CCGE equipped with the features of "Cangjie Version 6 Searching and Retrieval System", more tremendous market prospects will be enjoyed in the scopes of laptop computer devices and Chinese intelligent search engines.

The e-Town project of the Group has also to be temporarily slowed down. Though certain breakthroughs were made in terms of each pilot work and its implementation, according to our pilot tests, the success attribute of the e-Town project was neither dependent upon its technical equipment nor upon the availability of suitable affordable computers for farmers, but relied on the capability of producing suitable computer platforms for handling mass agricultural produces and their transactions. While certain progress was gained in respect of cooperation with other institutions for these kinds of produces, a full promotion is yet to be started upon the completion of the overall pilot schemes and the related work.

Comics and Multimedia Business

Faced with growing recreational alternatives among customers and increasing book-letting stores, the traditional comics publishing business in Asia is currently imposed to a flurry of challenges. Turnover dropped by 11.3% from HK$47 million in 2005 to HK$41.7 million for the year. The local comics business remained a steady income generator, however, rising popularity of comic book letting stores and parallel goods created severe impacts on our imported Japanese comics business, as noted from a significant drop of 15% in our Japanese comics business income from HK$35 million in 2005 to HK$30 million during the year. As a council member of the Hong Kong Joint Animation & Comics Association (香港動漫畫聯會), we have taken an active leap in negotiating about revisions on the prevailing relevant regulations with the related departments of the Hong Kong Government and the Legislative Council in order to put into place copyright mechanisms through regulations on books or comics lettings and parallel goods.

On the scope of diversified overseas licensing markets, notable achievements were attained in 2006. New markets including Spain, France, Vietnam and the United States were explored partially attributable to the international fame of our licensed films. Accordingly, income sources from new markets are expected to strengthen our existing overseas markets namely Japan, Taiwan, Indonesia, Thailand and Singapore in 2006.

2006 embarked a year of milestone for comics sector as a cross-media business. The "Dragon Tiger Gate" movie, which is licensed by the Group and filmed in coincidence with the 36th anniversary of the comic title, has drawn widespread attention during the France Films Expo. The movie is currently planned to be theatrically released in around 64 countries, and we anticipate it will upgrade Culturecom's comics from a local legend to an international brand name. The ancillary online games and mobile games of the comics, which the Group has licensed to develop, will also be launched simultaneously with the movie's premiere in Asia Pacific at the end of this July. The movie is scheduled to be shown in more than 1,000 cinemas in America and Japan sometime in the second quarter of 2007. Licensing of a television drama series based on the comics has also been concluded and the series is scheduled to be filmed and broadcasted in the coming year.

In addition to "Dragon Tiger Gate", the Group has also licensed another martial art comic title "Palm of Buddha" for developing related MMORPG games and mobile games by domestic computer games software companies. The games will be launched nationwide in November of this year. Given that online comics are gaining increasing penetration, licensing income from the authorization of online comics has also been increasing. On the other hand, performance of the licensed merchandises of comic title segment has been stable during the year.

With the continuous development of cable television and Internet protocol television (IPTV) markets in Mainland China, the Company has received numerous calls from enterprises in Hong Kong, Mainland and Taiwan for grant of permission to broadcast the Company's comic titles on their own platforms. The Directors believes that the development of multimedia market will become a key revenue contributor to the Group, however this is yet to be dependent upon the imminent market developments.

We believe that as the multimedia market is becoming increasingly mature, Culturecom is well-poised to generate greater shareholders' returns by leveraging on our extensive pool of strong assets and rich intellectual properties in both comics and multimedia segments.

Prospects

The Group's management has endured a number of tremendous tests and trials in the course of realizing our technology know-how. With a blended mixture of painful lessons and valuable experience from the past, the management is aware that it is never an easy task to maintain a healthy zero-debt status and to steadfastly strive against tough times. However, enormous resources have been directed to "pure technology" sectors as I failed to effectively capture the direction of the "technology culture". While reviewing this regretful but disappointing fact, I never take our shareholders' patronage for granted.

After a series of rationalization and streamlining, the Group is today on a healthy track. In the culture technology sector, the Group remained well-positioned in our leading technological assets of "CCGE" and our agricultural e-commerce namely "e-Town", which was a product derived from long-lasting trials and modifications. We also own the most extensive comics library in Greater China which is of significance during a speedily expanding multimedia epoch. With the internationalized release of the "Dragon Tiger Gate" movie, our customer base was surging. For multimedia segment, our licensing customers have been extended to include regions and countries such as Hong Kong, Southeast Asia, Taiwan, Korea and Japan, while licensing negotiations with North American and European customers are still underway. The upgraded and simplified version of CCGE with "Cangjie Version 6 Searching and Retrieval System" is not only featured with focused embedment into sophisticated CPU, but also characterized with integrated bundling with each and any type of software and hardware, so that the version is now easier to be integrated with the existing information processing units (both software and hardware). This lowered barrier will be conducive to flourishing market development and to enlarging customer profiles.

Looking ahead, the Culturecom Group will no longer be simply in pursuit of technological developments for its own sake. Instead, we will focus on technological applications, including collaborations with hi-tech enterprises and their technologies to foster our technology-based culture market. With a defined and clear mission of developing our technology-pillar culture market, we will commit ourselves to create greater shareholders' values.

CLOSURE OF REGISTERS OF MEMBERS

The principal Register of Members and the branch Registers of Members and Warrantholders will be closed from 18 August 2006 to 24 August 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the 2006 Annual General Meeting, all transfer documents accompanied by the relevant share certificates and, in the case of warrantholders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. 17 August 2006.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the listed securities in the Company during the year ended 31 March 2006.

AUDIT COMMITTEE

The Audit Committee, with written terms of reference in line with the code provisions set out in the Code on Corporate Governance Practices (the "Code") as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), currently comprises three independent non-executive Directors, namely Mr. Lai Man To, Mr. Wang Tiao Chun and Mr. Joseph Lee Chennault. The Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2006 except for the following deviations:

Code Provision A.2.1

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. The Company does not at present have any officer with the title of "CEO" but instead the duties of a CEO are performed by Mr. Cheung Wai Tung, the Chairman of the Company in the same capacity as the CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies.

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors of the Company are not appointed for a specific term. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the year ended 31 March 2006.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All information as required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

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

Hong Kong, 24 July 2006

As at the date of this announcement, the Board comprises of Mr. Cheung Wai Tung, Mr. Chu Bong Foo, Mr. Henry Chang Manayan, Mr. Wan Xiaolin (all being executive Directors); and Mr. Lai Man To, Mr. Wang Tiao Chun and Mr. Joseph Lee Chennault (all being independent non-executive Directors).

* *For identification purpose only*

Please also refer to the published version of this announcement in China Daily.