CHAIRMAN'S STATEMENT

Business Review

The Core Business of a Low-priced Chinese Computing Industry

Commencing from 1999, under the leadership of Mr. Chu Bong Foo, Vice-Chairman of the Group, and with the full technical support from IBM (the cradle of science and technology), Culturecom has proceeded from the R&D of "Micro Embedded Chinese Character Generating Engine" to eventually creating a complete set of core technologies and standards for low-priced computing industry based on V-DRAGON CPU after five years of development. Apart from Wintel structure, the Group has emerged into a low-priced computing industry that genuinely accords with the requirements of the China market. The Chinese Character Generating Engine can be embedded into various models of CPUs that signifies the new direction for all future IT related products in terms of word processing, which is a prerequisite when entering into the competitive market of China. It is forecast that the Chinese Character Generating Engine will become the Group's most valuable asset attracting enormous business opportunities in the near future.

The first generation V-DRAGON CPU Core Technology targets at the vast novice market of the Greater China. It complements by Midori Linux international public platform, which was merged and acquired by the Group from Transmeta (a leading chip manufacturer in USA) in September of this year and to be jointly developed, and the RedOffice (a product jointly developed with the Academy of Science of China) to enhance creating the fundamental of the Chinese low-priced computers and CPUs technologies. Thus, providing manufacturers all over the world new business opportunities and competitive strengths for entering into the China market.

The first generation V-DRAGON CPU motherboard, designed and technologically supported by IBM, has successfully passed IBM's operation system technological test and inspection. The motherboard is the best quality one which has stable technology and with full expansion for providing with the solution scheme to the Chinese network computing in the China market. We believe the first generation V-DRAGON CPU motherboard will be similar to the situation of personal computing standard which was successfully made by IBM in 1981, to create a low-priced technology standard of Chinese computing industry in China.

V-DRAGON Processor has amazed the market after its launch in July of this year. In a period of just four months, the Group has successfully linked up the dominate agents, motherboard manufacturers and product manufacturers with an aim to build a brand-new industry chain based on low-priced Chinese computer core and to boost the sales orders under negotiation. We have proved the existence of a massive user-base of inexpensive and functional Chinese network computers in China and it is believed that the V-DRAGON core technology will generate rich rewards for the Group in the near future. With the completion of the Group's R&D investment, we now only require to support core technology in the industry chain, resulting in limited operation and production costs, as well as low capital commitment and market risk exposure. Hence, it is time for the Group to leap forward and harvest the seeds of our past hard work.

CHAIRMAN'S STATEMENT (Continued)

Chinese 2000 Online – "COL-eTown"

The Group's Chinese 2000 Online targets at the extensive border areas, the second and third tier cities and towns of China. Based on V-DRAGON Core Technology, the Group will establish individual "eTown" digital networking infrastructure for the local governments and enterprises. As such, each "eTown" will offer a total solution for local information dissemination powered by the V-DRAGON Low-priced Core Computing Technology business and the Secure Numerical Internetwork Information Centre ("SNIIC") management platform.

The Group has entered into an agreement with the local government of Yunan County, Yunfu Region in the Guangdong province of the PRC to establish an eTown infrastructure in this remote Guangdong area and to unfold a series of overall digital network testing trials of eTowns. Therefore, it is forecast that eTown will be spreading to all cities and towns nationwide with an aim to set up a comprehensive Chinese network computing user-base.

With the establishment of eTowns as a local intra-area network and its vast user-base, it also targets for the B2C enterprise, a local distributor for the low-priced V-DRAGON computing business as well as a trading, logistics and management platform.

Chinese eBook Business

Based on Chinese Character Generating Engine, the Group has actively promoted the e-schoolbag phenomenon to be more popular in the market for some years. In August of this year, V-DRAGON 1610 CPU Technology was applied by Beijing's PKU School.com in its "Peking University e-Learner" and it has been spread to 1,200 schools via its network. This is, in addition to Beijing's People's Education Press (PEC) eTextbook launched by the Group in collaboration with the PEC, another further promotion of the portable, environment-friendly and low-priced e-schoolbag concept to an extensive group of students. Coupled with the launch of the V-DRAGON low-priced computer, we believe e-schoolbag can further accelerate the popularization of e-education and IT education in China.

Comic Business

As the most long-standing comic publishing Group in Hong Kong, Culturecom remains the largest comic content producer and provider in the Asia-Pacific region and the Group continues to explore its new comic related multi-media business this financial year. Although the outbreak of SARS dampened the general comic market in South East Asia, the Group's comic business has recorded gradual recovery since August of this year. To cope with the development of the multi-media business, the Group has co-operated with a number of movie companies to publish movie-based comics and to launch comic-related mobile value-added services accordingly. The first movie-based comics comprise of the "Infernal Affairs" series, the number one box-office Chinese movie of the year in Asia-Pacific Region and "Silver Hawk". It is scheduled that the comic-related mobile/telecom value-added services will be available year-round from the beginning of 2004.

CHAIRMAN'S STATEMENT (Continued)

Prospects

Culturecom proves with practice that "culture" generates social benefits as well as commercial value. The Group has been immersing itself in the R&D of the core technology in the Chinese computing industry for the past five years, working on the foundation of research led by Mr. Chu Bong Foo who imposes on his dedication and integrity for 25 years. With 30 years' strenuous efforts, the Group has succeeded in realizing the log-in of Chinese characters on CPU, and in inventing the low-priced Chinese computing core technology that belongs to the Chinese community, such that the CPU function is no longer dominated by the English characters' single culture. This achievement brings to the Chinese computing industry an inexpensive and functional Chinese computing core other than Wintel core technology and creates a cyber great harmony where "everyone can afford to use a computer" in the China market. After five years of diligence in the R&D work, the Group has finally weathered the hardship to face the market as being the sole Chinese Core Computing Provider, as well as forming alliances with international corporations and conglomerates.

The Board commences to implement a Group restructure this year as the R&D of the core technology business has already been completed. Initially, the restructuring involved streamlining personnel, administration costs and operating expenses under stringent control. Judging from the interim results of this financial year, the above measures prove effective as the overall operating expenses dropped significantly from HK$42,383,000 in the interim period last year to HK$30,491,000 this year, demonstrating the end of past five-year intensive investments in the area of R&D of Chinese Core Technology. Moreover, the Board has realized that, during the period of marketing and under fierce competition, self-streamlining and focusing all resources on marketing is a key to the success. For this reason, the Board will, sparing no effort, embark on building a brand-new operating system of Culturecom in this financial year, since that the Group owns the core technology including "V-DRAGON CPU" but furnishes no fund for constructing CPU R&D factories; owns the motherboard service technology structured for CPU but introduces full-scale IBM technical support; possesses the ability to form industry's demand and supply chain based on Chinese computer core technology. With this ability, it is possible that no self-initiated resource is required during the course from CPU core technology to motherboard service, and to the sale and services of ultimate products in the industry chain. Under such circumstance, it is thereby lightening to its maximum extent that the investment and capital commitment required in terms of the process of technology, product's R&D work and its production and marketing sale, has finalized the new operating system which has begun to get the desired result.

The Board is deeply convinced that with the difficult times behind us, we are heading for a blooming new era of low-priced Chinese computing industry.