

# CHAIRMAN'S STATEMENT

## RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st March, 2004 amounted to HK\$40,655,000 (2003: HK\$59,138,000) of which HK\$39,184,000 (2003: HK\$55,539,000) was attributable to the business of comic publication of the Group and HK\$1,471,000 (2003: HK\$3,599,000) was attributable to the Chinese information infrastructure of the Group. Net loss attributable to shareholders, taking into account, taxation and minority interests, was HK\$72,467,000 (2003: HK\$149,362,000). The loss per share was HK2.37 cents (2003: HK4.99 cents).

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2004.

## FOREWORD

One could always recall Mr. Chu Bong Foo, Vice-Chairman of the Group, made public his "concept computing-network" speech at the National Taiwan University in 1993 and his theory and construction work of "Chinese Character DNA" in July 1999 in Beijing, which stirred up brisk discussions and controversies that are still vivid in mind, feeling as if one experienced them in person. Over the past six years, the entire Group has paid unrelenting efforts to develop "V-Dragon Chinese Computer Core", throughout when we have had the pleasure to be considerably supported by IBM and the various Linux teams. As a result, we have led the computer system into the reforming stage where a new age of Chinese Intelligent Computer will come about. Sharing the same goal of imparting and inheriting the 5000-year-old Chinese culture, which bears the label of being one of the world's "Four Greatest Civilizations", and merging the Western and Eastern cultures in the IT era, Mr. Chu Bong Foo and every colleague of Culturecom have dedicated themselves wholeheartedly to the work.

## BUSINESS REVIEW

### **The new system of theory and construction work of "Chinese Character DNA" and Culturecom's Industrial Standard of "V-Dragon Chinese Intelligent Appliance Computing Products"**

After six years of hardship, the Group's insistence on promoting the full computer popularization in China has hardly ceased. The ideal computing evolution we endeavor to research on and to develop does not aim at encouraging the public to "Learn computer skills and use Chinese", but to "Learn Chinese and use computers". This is the type of computer which will become in the genuinely popularized form. In order to invent such kind of computers, we have no choice but to start from research in the area of "Chinese Character DNA".

Mr. Chu Bong Foo has immersed himself in the research work of DNA of Chinese processing. His historical contribution lies in the invention of "Chinese Character DNA" which can fit perfectly into the computer calculating system, which he achieved, on the basis of the existing abundant pool of Chinese culture and history research information, through the tedious processes of simplification and denumerization. His spirit of dogged perseverance embodied in rearranging the numerous Chinese characters has eventually been rewarded by the successful integration of traditional Chinese culture and characters, which have existed for thousands of years, and the computer's CPU, the core of modern information technology.

In the process of carrying out the R&D on "Chinese Character DNA", Mr. Chu Bong Foo successfully distilled the "DNA" of Chinese character's definitions out and categorized them into an Indexing system of "conceptual structure" and Indexing system of "application and causation knowledge base", forming a complete system of "Chinese characters' cognition". When the computer accepts Chinese characters, various Chinese humanities and related knowledge will automatically be functioned within the computer's cognizance through the cognition system, resulting in that the computer will understand Chinese character. In the future, it is possible that everyone can use the natural language of Chinese to give instructions to their computer, and the computer will follow up the users' instructions in using the natural language. Thereby, the computer will become a more suitable application tool for the general public to use in their daily life.

In the year 2003, under the inspiring guidance of the theory of "Chinese Character DNA", Culturecom, in collaboration with IBM, developed V-Dragon CPU, which was embedded with the world's first grain of 64-base components conceptual DNA of Chinese Characters and which was embedded with the "Chinese Character Generating Engine" (CCG) and the "Chinese Character Driver" (CCD).

Subsequently, the Group has started to develop Midori Linux, the core of the embedded operating system (Kernel), connecting to the "Chinese characters' cognition system" with the embedded operating system and forming "Midori Linux Chinese Character's Intelligent Operation System" with the "Chinese Character Generating Environment", which enables users, with the help of "Culturecom Code" (CC Code), to use the natural language of Chinese to freely instruct the computers to operate according to human demand. "Embedded Chinese Character's Intelligent Operation System Code" (Midori CI Kernel) will become the world's first popularized and general intelligent I.A. operating platform.

V-Dragon CPU, the CPU in which the 64-base components conceptual DNA of Chinese Characters was embedded, and "Midori Linux Chinese Character's Intelligent Operation System" formed the core of "Chinese Character DNA", which in effect is the core technology of the Chinese Intelligent IT industry, and the core technology for the industrial development of various intelligent computers I.A. and intelligent electrical appliances, including intelligent telephones and intelligent televisions. Meanwhile, it will definitely initiate a direction for the Chinese computer industry development. It will leap over the historical stage of PC, liberate itself from Wintel's monopolistic control, assist the non-PC community to realize a swift popularization of computer and to enter into the informative society. It will become a way out for the global IT industry development.

## CHAIRMAN'S STATEMENT

## V-Dragon CPU and its Mother Board

The success of a new computer industry technology is greatly dependent on the success of the computer popularized market in China. Therefore, the Group has formed an important strategic alliance with IBM. With the assistance of IBM, we have successfully developed V-Dragon CPU, the world's first grain of CPU in which the conceptual DNA of 64-base components Chinese Characters was embedded. Targeting at the beginners who use computers other than personal computer, we have technologically prepared ourselves. Together with IBM, we aim at developing the market of 1,200,000,000 new computer users in China, expanding the Chinese computer business and building up a brand new customer community outside the PC market.

In July 2003, the Group has officially launched the V-Dragon CPU and its mother board at the "First Conference on the Development of Chinese IT & V-Dragon CPU Trade Forum", which was held in Hong Kong. Shortly after the Conference, the Group won the close attention from the international scientific and technological communities. In February 2004, the Group convened the "Seminar of the Creation of China's Self-Developed IT Standard" in Shenzhen and announced the official birth of an "Industrial Standard of V-Dragon Midori Embedded System" in the meeting. This new embedded general operation technological structure and standard will integrate with the prosperous industry of electrical appliances in China, which will result in the commencement of a brand new Chinese Intelligent Computer industry.

During last year, since V-Dragon CPU and its mother board have been launched, large numbers of manufacturers inside and outside the country have expressed their interests in applying the V-Dragon Core Technology to develop various kinds of new-generation Chinese Intelligent I.A. products, including Chinese Intelligent tax controlled gathering machine, Chinese Intelligent learning machine and Chinese Intelligent set top box. It is estimated that all of these will in turn be launched in the market next year, bringing substantial returns to the Group.

## Great Network-towns of COL-eTown

The Group and IBM have collaborated to meet the strategic aim which is to create new market ecology of Chinese intelligent computer industry. Therefore, under the "Chinese COL-eTown" plan, and through the Chinese computer network, the Group has constructed an enormous Chinese computer user base to form an extensive info-community comprising of counties and towns, and thus to establish a national "Great Network-towns" of COL-eTown.

COL-eTown is an entity focusing on B2C model, which is a regional distributor of V-Dragon CPU and also serves as the trading, logistic and management platform for various types of township internet-based commodities trade. This brand-new computer application system creates an info-community of Chinese computer network. Different kinds of software, content, education, production and operation activities, technology support, information service and forth are supported by the centralized COL-eTown system, and connected to all end-users, such that the intellectual property rights can be effectively esteemed and protected in a protective system, and that different kinds of livelihood technology and IT industry in the world are orderly introduced to and applied in the township economy, with an aim to establish an internationally united-systemized knowledge-economic development zone.

Moreover, the COL-eTown computer application system with low price, whole Chinese operation, and full scale guide, support and services will induce transformation in a New Economic Development Model of "Three Farming Technology" for outland China and some medium to small towns, enabling the great majority of the mainland cities and towns to build up knowledge-based local new industry, agriculture and processing industry with direct connection with the international market by leveraging the information technology means that can shorten time-space distances, and realizing the full transformation to the new agricultural economy characterized by knowledge-economy and "Three Farming and Three Transforming" (namely rural informatization, farmers intellectualization and enterprise-style operation, agriculture internationalization). Thus, COL-eTown, the enormous development region of knowledge-economy, will sure to greatly encourage the international IT industry and forebode a vast new giant business opportunity to be developed and shared by all.

### **Comic Business**

Recovery of overall economy in Hong Kong since last October had brought Culturecom's comic business back to normal. Outbreak of SARS dampened the market environment in South East Asia during the first half of the financial year and had trimmed our turnover and margin. Our efforts to set up a multi-media platform in Greater China continue with increasing number of collaborators will launch our value-added services in the second half of 2004.

### **PROSPECTS**

We believe that the V-Dragon new industrial system and standard can totally get rid of the fetters of the structure of "Wintel x86", genuinely accomplish the take-off and popularization of the desirable computers, making it a living tool of the general public. As such, an era of using the desirable computers will see the device to be "Existing everywhere, Existing all around" is drawing near.



**Cheung Wai Tung**

*Chairman*

Hong Kong, 22nd July, 2004