

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31st March, 2005 amounted to HK\$47,247,000 (2004: HK\$40,655,000) of which HK\$47,010,000 (2004: HK\$39,184,000) was attributable to the business of comic publication of the Group and HK\$237,000 (2004: HK\$1,471,000) was attributable to the Chinese information infrastructure of the Group. Net loss attributable to shareholders, taking into account, taxation and minority interests, was HK\$162,931,000 (2004: HK\$72,467,000). The loss per share was HK4.84 cents (2004: HK2.37 cents).

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2005.

BUSINESS REVIEW

Core Technology Business

Based on its wholly-owned subsidiary, Culture.com Technology Limited, Culturecom Group has gone through all kinds of challenges to finally accomplish its mission to establish an industrial foundation and framework for Chinese Computing. The likely misunderstanding by the investing public towards the Group over the past years reminded the management the importance of mutual communications; the invaluable comments were meticulously reported and discussed within the management. The patron support and patience of dear investors and shareholders are deemed to be rewarded as the foundation has been built.

To develop a product or some technological knowhow usually take a path that normally goes through processes of focus and in-depth drilling until product roll-out. That is the typical way of trend-follower instead of trend-setter. Culturecom takes the latter which is a high risk high return method. Superb result is likely to envisage after years of development at Culturecom. A lucrative market is materialised upon the ability to grasp the mass market; to enter into the mass market requires the complete preparation of useful IT foundation. The attributes are largely determined by the following factors:

- (i) The "Embedded Chinese Character Generating Engine" (CCG), the essence of the thirty years' focused and painstaking labor of Mr. Chu Bong Foo, Vice-Chairman of the Group. This technology has revolutionized the cumbersome traditional Chinese print-edit method dated back to more than centuries ago. It is the embedded technology that heralds a small and exquisite mobile epoch for computers, and also the key IP technology that enhances the CPU functions in tackling Chinese;
- (ii) CPU core technology, the indispensable part to enhance the development of mass market computer. Culturecom has been successful in the past years to integrate CCG and CPU core technology to develop the "V-Dragon 1610 CPU". Subsequently, it has cooperated with IBM to launch the "V-Dragon 3210 CPU", forming the V-Dragon series brandname. V-Dragon series will be widely used in all kinds of Chinese embedded devices such as the e-textbook, Tax/POS terminal and Chinese network computer. In the future, the Group will utilize other CPU technology to develop more "V-Dragon Series" CPU while possessing its own mass market CPU core technology;

- (iii) The implementation of Linux Operation System, the must of promotion of mass market computer. The Group has been smoothly cooperating with the Chinese Academy of Sciences to launch "Red Office 2000 Linux". The product has been gathering momentum since launching to secure contracts from municipal governments, provincial governments, and autonomous region governments nationwide. Besides, the Company has cooperated with Transmeta Corporation, a hi-tech company based in Santa Clara, CA of USA, to secure the development and management right of the Midori Linux international public platform. The Midori Linux Operation System has become the internationally renowned embedded Linux system platform used by many leading international companies to develop different embedded products, such as the built-in software of Japan NTT DoCoMo communication products; and
- (iv) The establishment of a chained component and peripheral support network the last key factor to pave the way for a successful mass market product launching. The Group has allied with IBM to complete the industrial mother-board and respective menu of "V-Dragon 3210 CPU". This mother-board is the superb solution of internet accessible terminals and tax-terminal. In the age convergence to address the needs of getting mobile and to conform the most commonly adopted IT platform of x86, Culturecom has well prepared to integrate. The mobile area, based on the newly acquiring technology, is our near focus marketing area. We anticipate lucrative return from this area in the near future.

The above development aims at addressing the three issues in relation to the construction of Chinese computing foundation:

- (i) How to establish a Chinese embedded CPU core mechanism for the rapid popularization of computers in the PRC, especially the mobile communication computers;
- (ii) How to establish a mass market IT industry based on Linux and compatible to Windows; and
- (iii) How to rapidly establish an autonomous national industry chain based on the existing x86 industry standard to integrate the existing and comprehensive industrial support chain system including parts and software.

In our age characterized by integration of mainstream and non-mainstream computer mechanism and convergence of computer and communication, Culturecom has virtually finished its construction of the full foundation of an IT autonomous computer industry in the PRC. As such, Culturecom will be able to provide core solutions applicable to computers and communication products and compatible to mainstream x86 computer industry, bringing about notable revenue for the Group.

Comic Business

During the year, our imported Japanese titles experienced strong growth with new books such as "Death Note" received high penetration and sales. Local comics remained stable growth together with economic recovery of the overall market and our momentum came from new business of electronic media such as licensing to movie, TV dramas and online game.

From 2005 onwards, over 10 major classic local comic titles will celebrate special anniversary since they were first published. Therefore, Culturecom is going to launch a new platform of multi-media product mix to revitalize the comic classics. In addition, online e-comic business in China is on the track with solid strategic alliance with major service providers such as Tencent QQ and Netease. Market diversification of value-added services will expand to major economies in Asia pacific region within the second half of 2005.

PROSPECTS

In the previous year, the Group has adopted a sound and steady financial principle to accelerate amortization, tighten up capital expenditure and maintain zero long term liabilities. For the past six years, the growth of Culturecom has been centered on Culture.com Technology Limited according to its unshakable development concept, and this has resulted in the emergence of its enormous technological values. Nowadays, it has become an IT enterprise with the industrial core value such that V-Dragon Series products and brands were formed. Along with the further development of the market, there will be more products launched under brand name V-Dragon, making substantial revenue contribution to the Group. Besides, possessing full IT industry fundamental conditions, it will surely become a major enterprise that controls the pattern of the Chinese communication computer industry, and the growth in it will turn it into a pillar enterprise for the whole Culturecom Group, bringing about immense interests for the whole group.



Cheung Wai Tung
Chairman

Hong Kong, 22nd July, 2005