

CHAIRMAN'S STATEMENT

Business Review

Technology Business

Crusoe CPU and Efficeon CPU

In May 2005, the Group entered into two agreements with Transmeta Corporation of USA acquiring the assets and technology of Crusoe CPU, and the licensed production and sale of Efficeon 130nm CPU in China respectively. Such major transaction was passed and approved at the special general meeting held in October 2005.

After the consistent efforts of the management, the technical details of the whole acquisition has been finalized with Transmeta Corporation and has reached its final stage of implementation. The Group and Transmeta Corporation are about to sign the "Service Contract" in relation to the development and technological cooperation of Crusoe CPU, the "Contract regarding the acquisition/licensing of the Source Code of CMS (Code Morphing Software), the core-software of Crusoe CPU", and the "Exclusive General Agency Contract of Efficeon 90nm CPU in Great China" shortly. As this acquisition is the first technology export case with the highest level of technology in its class of CPU in USA, Transmeta Corporation and the Group's management have been intensively active and prudent in handling relevant procedures of technological export of USA. The Board has full confidence in this issue.

The Group has been pursuing its objectives in technological area for years. Utilizing the embedded CCGE of Chinese Character DNA invented by Mr. Chu Bong Foo as its technological core, and integrate it with processor technology, the Group has created a processor core technology business with Chinese character processing capability, popularizing and simplifying the Chinese IT industry. It proves effective as time goes by in spite of the tortuous road ahead. Nowadays, the x86 processor has emerged as the mainstream platform of the semi-conductor industry, as evidenced by the figures showing that, in 2003, x86 accounted for over 87% of the total global CPU market. The present development trend of the semi-conductor industry signifies that: (1) the proportion of x86 platform in the electronic industry is increasing; (2) various functional specific computers still call for unified format, such that the x86 platform is penetrating realms of consumer electronic, industrial control and communication products, fueled by the specific usage of computer; and (3) hand-held consumer electronics will experience rapid growth, closely networked with desktop computers and increasing importance of x86 standard to cope with the popularization of file information transfer. On the other hand, Crusoe CPU is a "non-x86 CPU technology but fully compatible with x86". It adopts a smart software structural design overcoming a number of technological barriers hindering the development of x86 CPU towards low power consumption, low price and fitness for embedded applications. This makes it more suitable than traditional x86 for applications in embedded consumer electronic, industrial control, and mobile communication products, in respect of which China becomes the world's largest and most flourishing market. The Board believes that, once the transactions were completed, the Group's embedded CCGE technology and Crusoe CPU technology, coupled with the thriving "technology for renewable photovoltaic energy", will bring about a broader market space for the Group in the embedded mobile high-end x86 application of China.

CHAIRMAN'S STATEMENT (CONTINUED)

V-Dragon CPU and CCGE

V-Dragon CPU has made considerable progress in the market of China. The Group has entered into an agreement with 北京神州龍芯集成電路設計有限公司 (BLX IC Design Co., Ltd) ("BLX") in China in respect of the licensing of CCGE technology to BLX and the embedding into BLX series of chips to promote wide application of CCGE in the market of China. The agreement also makes possible joint market promotion for "V-Dragon 3210 CPU" and its products. In addition, the Group has also entered into an agreement with 中國海信集團 (Hisense Group), with another one being discussed with 海爾集團 (Haier Group), in relation to the application of the Group's V-Dragon CPU technology in new-generation smart home-appliance and multi-media terminals.

Comic Business

Operating income for comic business has experienced a stable and healthy growth of approximately 12% in the first half of financial year 2005/2006 to reach approximately HK\$25,248,000. Growth momentum came from steady expansion of media content licensing and rising popularity of some Japanese imported comic titles.

Cross media product mix such as 3D animation, online game and TV drama series will be in place by next calendar year. The movie licensed by the Group will have global debut by the end of July 2006.

Prospects

For years, Culturecom has committed to the integration of CCGE and CPU core technology, and deployment of a truly Chinese capable CPU core solution. Existing Chinese processing requires huge amount of memory, and thus hinders the development of various character-displayed consumer electronic products towards the lighter and more portable usage. CCGE has proved its capability to break through the physical limitation of Chinese character generating system, and to enable deep integration of computer core technology and Chinese culture. We are deeply convinced that CCGE and cross-platform Crusoe Chip core technology will be the key to the future rapid take-off of the vast consumer and communication electronic product market in China. We also look forward to the wide application of the Group's CCGE technology and CPU core technology in the consumer and communication electronic product sphere.