

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31 March 2006 amounted to HK\$46,221,000 (2005: HK\$51,354,000) of which HK\$41,731,000 (2005: HK\$47,010,000) was attributable to the business of comic publication of the Group, HK\$412,000 (2005: HK\$237,000) was attributable to the Chinese information infrastructure of the Group and HK\$4,078,000 (2005: HK\$4,107,000) was attributable to the rental income from investment properties of the Group. Loss attributable to shareholders, taking into account taxation, was HK\$159,357,000 (2005: HK\$162,931,000). The loss per share was HK4.34 cents (2005: HK4.84 cents).

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2006.

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 eTown 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 eTown 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 11.2% 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 "eTown", 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.

APPRECIATION

I would like to dedicate sincere gratitude to the Board of Directors and to all our staff for their dedicated efforts over the year and to all our customers, suppliers, business partners and our shareholders for their enthusiastic support to the Group.



Cheung Wai Tung

Chairman

Hong Kong, 24 July 2006