

CHAIRMAN'S STATEMENT

Business Review

At the beginning of the year 2006, the Group has resolved to give up the acquisition of Crusoe CPU core technology in order to avoid risks, and in turn initiated its reformation on its technological assets. During the first six months of this financial year, the Group has, under the framework of its all-rounded reform, reinforced various resource exploring and expense minimizing measures and adopted various counter strategies. 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. The corporate strategy will be adjusted. Preliminary results are reflected in the interim report.

Development of Technology Business

During the past half year, the Group has rearranged the entire direction of technology development, making unprecedented and determined consolidation towards the respective resource allocation ratio of core products and non-core products. Our ongoing projects are targeted at return yield time, and projects without effective shareholders' returns within the later half of the year will be recognized as non-core items. The corporate operation guidelines of non-core assets, including sales, will be handed over to the cooperative partners for follow up actions.

In the past half year, the Group maintained its contact with relevant corporations, institutions and universities regarding the Chinese Character Generating Engine and the related technologies, and sought for every possible opportunity of joint development.

Comics

During the first half of this financial year, comics business including local comics and overseas licensing were developed steadily. However, comic book-letting stores and parallel goods created impacts on our imported Japanese comics business, leading to a drop of 6% in our comics business turnover to approximately HK\$23,733,000 during the year as compared with the corresponding period of last year. The year 2006 is a year when comics make their way to a relatively larger stage of inter-media business. Licensed movies, ancillary online games and mobile games of the comics are gradually completed and launched to the market. The Group is now actively looking for the chances to cooperate with relevant corporations to develop licensed business of animation and comics in the Mainland, and conditioned upon a lower risk exposure, strengthen the revenue contribution of the comics business to the Group. The Group believes that as the multimedia market is heading to its maturity, Culturecom's comics will anticipate a more rapid revenue enhancement in the multimedia area.

Prospects

Looking ahead, the Culturecom Group will adopt a conservative approach, and with all resources in hand we will focus on cooperative development and the establishment of economies of scale, and commit ourselves to create greater shareholders' values. It is believed that the Group will soon develop its characterized potential market.

Appreciation

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