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## **CULTURECOM HOLDINGS LIMITED**

文化傳信集團有限公司\*

*(Incorporated in Bermuda with limited liability)*

*(Stock Code: 343)*

### **DISCLOSEABLE TRANSACTION: ISSUE OF SHARES IN CULTURE.COM TECHNOLOGY LIMITED**

On 30 August 2005, Culture.com Technology, an indirect wholly-owned subsidiary of the Company, entered into the Subscription Agreement with the Subscriber in relation to the conditional subscription of 10% of the enlarged issued share capital of Culture.com Technology at Completion at a consideration of the lower of the sum of HK\$73,500,000 or 10% of the Valuation Value. The Consideration will be satisfied in full by the allotment and issue of the Consideration Shares by the Subscriber to Culture.com Technology or its nominee.

Based on a consideration of HK\$73,500,000 and the issue price of HK\$0.15 per Consideration Share, 490,000,000 Consideration Shares shall be allotted and issued, representing approximately 17.80% of the issued share capital of the Subscriber as at the date of the Subscription Agreement and approximately 15.11% of the enlarged issued share capital of the Subscriber assuming no further shares of the Subscriber will be issued from the date of this announcement up to Completion.

The Subscription involves both an acquisition of the Consideration Shares and a deemed disposal of the Company's interests in Culture.com Technology under Rule 14.29 and which constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules.

A circular containing further details of the Subscription and information regarding the Group will be despatched to the Shareholders within 21 days from the publication of this announcement.

\* for identification purpose only

## SUBSCRIPTION AGREEMENT

**Date** : 30 August 2005

**Parties** : (1) Issuer : Culture.com Technology Limited, an indirect wholly-owned subsidiary of the Company

(2) Subscriber : REXCAPITAL International Holdings Limited, a company incorporated in Bermuda and which issued shares are listed on the Stock Exchange. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Subscriber and its controlling shareholder is an Independent Third Party

**Subscription Shares** : 100 new ordinary shares of HK\$1.00 each in the share capital of Culture.com Technology, representing 10% of the enlarged issued share capital of Culture.com Technology, to be allotted and issued to the Subscriber or its nominee at Completion.

**Consideration** : The lower of the sum of HK\$73,500,000 or 10% of the Valuation Value, to be satisfied in full by the allotment and issue of the Consideration Shares to Culture.com Technology or its nominee, credited as fully paid, at the issue price of HK\$0.15 per Consideration Share.

The issue price of HK\$0.15 per Consideration Share was arrived at having considered the trading price of the shares of the Subscriber and represented (i) a premium of approximately 8.54% over the average closing price of the shares of the Subscriber of HK\$0.1382 as quoted on the Stock Exchange for the 5 trading days up to and including the date of the Subscription Agreement; and (ii) a premium of approximately 11.11% over the closing price of the shares of the Subscriber of HK\$0.135 as quoted on the Stock Exchange on the date of the Subscription Agreement. The Consideration was arrived at after arm's length negotiations between Culture.com Technology and the Subscriber with reference to the value of the technologies already developed and/or owned by Culture.com Technology, research and development expenses incurred by Culture.com Technology in its business and the conjecture potential market of Culture.com Technology's technologies in the future based on the experience and opinion of the directors of Culture.com Technology.

Based on a consideration of HK\$73,500,000 and the issue price of HK\$0.15 per Consideration Share, 490,000,000 Consideration Shares shall be allotted and issued, representing approximately 17.80% of the issued share capital of the Subscriber as at the date of the Subscription Agreement and approximately 15.11% of the enlarged issued share capital of the Subscriber assuming no further shares of the Subscriber will be issued from the date of this announcement up to Completion. The 490,000,000 Consideration Shares will have a par value of HK\$4,900,000 and, based on the closing price of the shares of the Subscriber of HK\$0.135 as quoted on the Stock Exchange on the date of the Subscription Agreement, a market value of HK\$66,150,000. The Consideration Shares shall

be allotted and issued credited as fully paid and shall form part of and rank pari passu in all aspects among themselves and with all shares of the Subscriber in issue as at the date of Completion. Culture.com Technology has agreed to a lock-up period of six months immediately following Completion during which it will not dispose of, transfer, sell or contract to sell (either conditionally or unconditionally, or directly or indirectly, or otherwise) any of the Consideration Shares.

The Directors consider that the Consideration and the terms of the Subscription Agreement are fair and reasonable and that the Subscription is in the interests of the Shareholders as a whole.

**Conditions precedent :** Completion is conditional on:

- (i) if required, the passing of an ordinary resolution of the shareholders of the Subscriber at a special general meeting to approve the Subscription Agreement and the transactions contemplated therein including but not limited to the entering into of the Subscription Agreement, the Subscription and the allotment and issue of the Consideration Shares in accordance with the Listing Rules;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;
- (iii) if so required, the Bermuda Monetary Authority shall have approved the issue of the Consideration Shares;
- (iv) approval from the shareholders of Culture.com Technology for the allotment and issue of the Subscription Shares in accordance with Section 57B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
- (v) the warranties given by Culture.com Technology remaining true and correct;
- (vi) the warranties given by the Subscriber remaining true and correct;
- (vii) the basis for determining the Valuation Value and the appointment of the independent professional consultant being agreed by the parties;
- (viii) the receipt by the Subscriber of a report on and determination of the Valuation Value;
- (ix) the Subscriber being satisfied with and having accepted the results of a due diligence review to be conducted on the affairs, business assets, liabilities, operations, records, financial position, value of assets, accounts, results, legal and financial structure of Culture.com Technology;

- (x) the relevant parties agreeing to their satisfaction the terms and conditions of a shareholders' agreement in respect of Culture.com Technology; and
- (xi) all necessary approvals (including approval certificates) from the relevant authorities in Hong Kong, Bermuda and other jurisdictions where applicable, required to be obtained on the part of the parties in relation to the allotment and issuance of the Subscription Shares and the Consideration Shares having been obtained.

**Completion** : Completion shall take place on the fifth business day after all the conditions precedent have been satisfied or waived or such later date as the parties may agree.

**Long stop date for satisfaction / waiver of the conditions precedent** : the date falling 90 days from the date of the Subscription Agreement.

## **INFORMATION ON CULTURE.COM TECHNOLOGY AND THE SUBSCRIPTION SHARES**

Culture.com Technology is a company with limited liability incorporated in Hong Kong in 1999 and an indirect wholly-owned subsidiary of the Company. Culture.com Technology is principally engaged in the research and development of Chinese information infrastructure, including amongst other things, the Chinese Character Generating Engine ("CCGE"); the V-Dragon series of CPU and solutions for related computer applications. The research and development team of Culture.com Technology is led by Mr. Chu Bong Foo, the vice-chairman of the Company and inventor of Changjie Index System (倉頡檢索系統).

CCGE, is a Chinese font generation code capable of automatically generating Chinese characters instead of retrieving Chinese characters from an outside Chinese characters databank, which revolutionized the cumbersome traditional Chinese print-edit method.

The V-Dragon series of CPU comprise the "V-Dragon 1610 CPU" and the "V-Dragon 3210 CPU". Culture.com Technology has integrated the CPU core technology with CCGE to develop the "V-Dragon 1610 CPU", and subsequently cooperated with IBM to launch the "V-Dragon 3210 CPU" in 2003. The V-Dragon series of CPU can be widely used in all kinds of Chinese embedded devices such as eTextbook, Tax/POS terminal and Chinese network computer.

As at the date of this announcement, Culture.com Technology had an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each and an issued share capital of HK\$2.00 divided into 2 shares of HK\$1.00 each. Following the signing of the Subscription Agreement and prior to Completion, a shareholder's loan of approximately HK\$85,993,000 will be capitalised by the issue of 898 shares of HK\$1.00 each. Immediately prior to Completion, the issued share capital of Culture.com Technology will be 900 shares of HK\$1.00 each. The Subscription Shares will represent 10% of the enlarged issued share capital of Culture.com Technology at Completion and will rank pari passu in all aspects among themselves and with all shares of Culture.com Technology in issue as at the date of Completion. Following Completion, Culture.com Technology will continue to be a subsidiary of the Company.

## **INFORMATION ON THE SUBSCRIBER**

The following is information on the Subscriber as set out in the Subscriber's annual report 2005 dated 28 July 2005:

The Subscriber and its subsidiaries are principally engaged in strategic investments and capital market activities as well as financing business.

For the year ended 31 March 2005, the Subscriber and its subsidiaries recorded a turnover of approximately HK\$48,174,000 (2004: HK\$61,184,000). Loss before taxation was HK\$375,796,000 (2004: HK\$2,135,000) and loss after taxation was HK\$376,313,000 (2004: HK\$2,126,000). Based on the issued share capital of the Subscriber as enlarged by the Consideration Shares, loss before taxation attributable to the Consideration Shares was approximately HK\$56,782,776 (2004: HK\$322,599) and loss after taxation attributable to the Consideration Shares was approximately HK\$56,860,894 (2004: HK\$321,239). Loss attributable to the Subscriber's shareholders was HK\$376,313,000 (2004: loss of HK\$2,126,000). The basic loss per share of the Subscriber was HK18.05 cents (2004: HK0.14 cents).

As at 31 March 2005, the Subscriber and its subsidiaries had net current assets of HK\$38,042,000 (2004: HK\$369,677,000) and a total of HK\$7,841,000 in cash and cash equivalents (2004: HK\$1,217,000). Net cash inflow from operating activities for the year ended 31 March 2005 was approximately HK\$4,000,000 as compared to a net cash outflow of approximately HK\$72,000,000 for the year ended 31 March 2004.

As at 31 March 2005, the Subscriber and its subsidiaries had outstanding loans of HK\$6,752,000, which included secured loans of HK\$2,787,000 (2004: HK\$10,073,000) and an unsecured loan of HK\$3,965,000 (2004: HK\$Nil) and indebtedness of HK\$16,147,000 (2004: HK\$55,073,000).

## **REASONS FOR THE SUBSCRIPTION**

The Group is principally engaged in, among other things, investment holdings, development and sales of Chinese operating systems, processors, eTextbooks and Linux-based Chinese computer software.

The Directors are of the opinion that the Subscription will (i) strengthen the shareholder base of Culture.com Technology by the introduction of a strategic partner; and (ii) as a result of the holding of the Consideration Shares, which are marketable securities, strengthen the financial position of the Group as a whole.

According to the audited accounts of Culture.com Technology as at 31 March 2005, the audited net liability of Culture.com Technology as at 31 March 2005 was approximately HK\$51,989,000. For the year ended 31 March 2005, Culture.com Technology had been engaged in research and development and had nil revenue and recorded net loss (both before and after taxation) of approximately HK\$11,116,000. According to the audited accounts of Culture.com Technology as at 31 March 2004, the audited net liability of Culture.com Technology as at 31 March 2004 was approximately HK\$40,873,000. For the year ended 31 March 2004, Culture.com Technology recorded net loss (both before and after taxation) of approximately HK\$10,147,000.

According to the unaudited management accounts of Culture.com Technology as at 31 July 2005, the net liability of Culture.com Technology as at 31 July 2005 was approximately HK\$53,225,000. For the four months' period ended 31 July 2005, Culture.com Technology recorded net loss before taxation of approximately HK\$1,236,000. Upon the capitalisation of the shareholder's loan of approximately HK\$85,993,000 before Completion as set out in the paragraph headed "Information on Culture.com Technology and the Subscription Shares" above, the net asset value of Culture.com Technology will be approximately HK\$32,768,000. Upon Completion, the net assets value of Culture.com Technology will be further increased by HK\$73,500,000 to approximately HK\$106,268,000.

The Subscription is deemed a disposal of 10% of the Company's interest in Culture.com Technology, and upon Completion, the Group expects to recognise a gain of the deemed disposal of approximately HK\$62,873,000 in the income statement of the Group given that upon the capitalisation of shareholder's loan and Completion, the net assets value of Culture.com Technology attributable to the Group will be increased from approximately HK\$32,768,000 to approximately HK\$95,641,000 (being 90% of net assets value of Culture.com Technology after taking into account the capitalisation of shareholder's loan and the Subscription) .

### **LISTING RULES IMPLICATION**

The Subscription involves both an acquisition of the Consideration Shares and a deemed disposal of the Company's interests in Culture.com Technology under Rule 14.29 and which constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules.

A circular containing further details of the Subscription and information regarding the Group will be despatched to the Shareholders within 21 days from the publication of this announcement.

### **GENERAL**

As of the date of this announcement, the Board comprises Mr. Cheung Wai Tung, Mr. Chu Bong Foo, Mr. Cheung Kam Shing, Terry, Mr. Henry Chang Manayan, Mr. Wan Xiaolin (all being executive Directors); and Mr. Lai Man To, Mr. Wang Tiao Chun and Mr. Joseph Lee Chennault (all being independent non-executive Directors).

### **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

<b>“Associates”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Board”</b>	the board of Directors
<b>“Company”</b>	Culturecom Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Stock Exchange
<b>“Completion”</b>	completion of the Subscription Agreement
<b>“Consideration”</b>	the lower of the sum of HK\$73,500,000 or 10% of the Valuation Value
<b>“Consideration Shares”</b>	such number of new ordinary shares of HK\$0.01 each in the share capital REXCAPITAL International Holdings Limited to be issued in favour the Company in satisfaction of the Consideration at the issue price of HK\$0.15 per share
<b>“Culture.com Technology”</b>	Culture.com Technology Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
<b>“Directors”</b>	directors of the Company
<b>“Group”</b>	the Company and its subsidiaries
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People's Republic of China

<b>“Independent Third Party”</b>	a party which is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of the respective associates
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Subscriber”</b>	REXCAPITAL International Holdings Limited, a company incorporated in Bermuda and which issued shares are listed on the Stock Exchange (stock code: 155)
<b>“Subscription”</b>	the subscription of 100 new shares of HK\$1.00 each in the share capital of Culture.com Technology, representing 10% of the enlarged issued share capital of Culture.com Technology at Completion, by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
<b>“Subscription Agreement”</b>	the subscription agreement entered into between Culture.com Technology, as issuer, and the Subscriber, as subscriber, on 30 August 2005 in relation to the Subscription
<b>“Shareholders”</b>	holders of ordinary shares of HK\$0.10 each in the issued share capital of the Company
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Valuation Value”</b>	the fair value of Culture.com Technology as at the date of the Subscription Agreement stated in the report to be issued by an independent professional consultant to be appointed by the Subscriber, which value shall exclude (i) the value of the Subscription Shares and the Consideration Shares and (ii) the value of the assets and licences to be acquired under the transactions referred to in the announcement of the Company dated 7 June 2005
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“%”</b>	per cent.

By order of the Board of  
**CULTURECOM HOLDINGS LIMITED**  
**Cheung Wai Tung**  
*Chairman*

Hong Kong, 2 September 2005

Please also refer to the published version of this announcement China Daily.