

Interim Report

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2006-2007

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**CULTURECOM HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code : 343)



## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Cheung Wai Tung (*Chairman*)  
 Mr. Chu Bong Foo (*Vice-Chairman*)  
 Mr. Henry Chang Manayan  
 Mr. Wan Xiaolin

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Man To  
 Mr. Wang Tiao Chun  
 Mr. Joseph Lee Chennault

### COMPANY SECRETARY

Mr. Cheung Wai Keung, Cecil

### QUALIFIED ACCOUNTANT

Mr. Cheung Wai Keung, Cecil

### AUDIT COMMITTEE

Mr. Lai Man To  
 Mr. Wang Tiao Chun  
 Mr. Joseph Lee Chennault

### REMUNERATION COMMITTEE

Mr. Lai Man To  
 Mr. Wan Xiaolin  
 Mr. Wang Tiao Chun

### PRINCIPAL BANKERS

Bank of China (Hong Kong)  
 The Hongkong and Shanghai Banking Corporation Limited  
 Hang Seng Bank

### SOLICITORS

Michael Li & Co.  
 Appleby Hunter Bailhache

### AUDITORS

Deloitte Touche Tohmatsu

### PUBLIC RELATION

PR Concepts Company Limited

### REGISTERED OFFICE

Canon's Court  
 22 Victoria Street  
 Hamilton HM 12  
 Bermuda

### PRINCIPAL OFFICE

Culturecom Centre  
 47 Hung To Road  
 Kwun Tong  
 Kowloon  
 Hong Kong

### PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited  
 Rosebank Centre  
 11 Bermudiana Road  
 Pembroke  
 Bermuda

### BRANCH REGISTRAR

Computershare Hong Kong Investor Services Limited  
 Shops 1712-1716  
 17th Floor, Hopewell Centre  
 183 Queen's Road East  
 Wan Chai  
 Hong Kong

### COMPANY WEBSITE

[www.culturecom.com.hk](http://www.culturecom.com.hk)

### STOCK CODE

343

## 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.

## INTERIM RESULTS

The Board of Directors (the “Directors”) of Culturecom Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2006 together with comparative figures for the corresponding period of 2005 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Notes	Six months ended 30 September	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	4	26,432	25,458
Cost of sales		(21,619)	(20,047)
Gross profit		4,813	5,411
Other revenue		695	3,365
Administrative expenses		(32,295)	(33,419)
Gain on disposal of subsidiaries		1,726	–
Gain on disposal of associates		1,376	–
Provision for claim		–	(7,500)
Decrease in fair value of held-for-trading investments		(1,482)	(3,930)
Amortisation of development costs		–	(7,291)
Research and development expenditures		–	(2,131)
Finance costs	6	(73)	(1,525)
Allowance for loans to an associate		–	(5,400)
Share of results of associates		(672)	(3,195)
Share of results of a jointly controlled entity		–	(315)
Impairment loss recognised in respect of goodwill reserve		–	(2,490)
Gain on expiry of warrants		–	129
Loss before taxation	5	(25,912)	(58,291)
Taxation	7	–	–
Loss for the period		(25,912)	(58,291)
Loss per share – basic and diluted	8	HK(0.68) cents	HK(1.56) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2006

	Notes	30 September 2006 HK\$'000 (unaudited)	31 March 2006 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	28,497	31,305
Prepaid lease payments		24,891	25,059
Investment properties	9	57,836	57,836
Interests in associates		3,260	3,931
Amounts due from associates		21,739	21,739
Intangible asset – club memberships		1,385	1,385
		<b>137,608</b>	<b>141,255</b>
<b>CURRENT ASSETS</b>			
Inventories		265	143
Trade debtors	10	9,375	6,568
Prepaid lease payments		335	335
Other debtors, deposits and prepayments		10,401	10,227
Amounts due from fellow subsidiaries of an associate		194	–
Amounts due from associates		28,463	30,898
Taxation recoverable		96	96
Held-for-trading investments		18,568	24,552
Bank balances and deposits with other financial institutions		49,030	19,536
		<b>116,727</b>	<b>92,355</b>

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AT 30 SEPTEMBER 2006

	Notes	30 September 2006 HK\$'000 (unaudited)	31 March 2006 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade creditors	11	8,584	7,363
Other creditors and accrued charges		9,695	11,912
Amounts due to fellow subsidiaries of an associate		883	33
Obligation under finance leases – amount due within one year	12	32	48
		<b>19,194</b>	19,356
<b>NET CURRENT ASSETS</b>		<b>97,533</b>	72,999
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>235,141</b>	214,254
<b>CAPITAL AND RESERVES</b>			
Share capital	13	402,398	373,398
Reserves		(176,744)	(162,586)
<b>TOTAL CAPITAL AND RESERVES</b>		<b>225,654</b>	210,812
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	15	6,061	–
Obligation under finance leases – amount due after one year	12	87	103
Deferred tax liabilities		3,339	3,339
		<b>9,487</b>	3,442
		<b>235,141</b>	214,254

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Attributable to equity holders of the Company								Total HK\$'000 (unaudited)
	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Contribution surplus HK\$'000 (unaudited)	Other reserve HK\$'000 (unaudited)	Capital redemption reserve HK\$'000 (unaudited)	Translation reserve HK\$'000 (unaudited)	Share option reserve HK\$'000 (unaudited)	Accumulated loss HK\$'000 (unaudited)	
At 1 April 2006	373,398	731,430	171,671	25,773	446	(313)	1,249	(1,092,842)	210,812
Exchange difference on translation of overseas operations not recognised in the income statement and net expenses recognised directly in equity	-	-	-	-	-	38	-	-	38
Loss for the period	-	-	-	-	-	-	-	(25,912)	(25,912)
Total recognised income (expenses) during the period	-	-	-	-	-	38	-	(25,912)	(25,874)
Recognition of equity-settled share-based Payments	-	-	-	-	-	-	11,749	-	11,749
Recognition of equity components of convertible bonds	-	-	-	4,184	-	-	-	-	4,184
Convertible bonds issue expenses	-	-	-	(119)	-	-	-	-	(119)
Conversion of Convertible bonds	29,000	(823)	-	(3,275)	-	-	-	-	24,902
At 30 September 2006	402,398	730,607	171,671	26,563	446	(275)	12,998	(1,118,754)	225,654

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Attributable to equity holders of the Company								Total HK\$'000 (unaudited)
	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Contribution surplus HK\$'000 (unaudited)	Goodwill reserve HK\$'000 (unaudited)	Other reserve HK\$'000 (unaudited)	Capital redemption reserve HK\$'000 (unaudited)	Translation reserve HK\$'000 (unaudited)	Accumulated loss HK\$'000 (unaudited)	
At 1 April 2005 as restated	346,160	696,804	171,671	(46,171)	15,306	446	(130)	(883,975)	300,111
Exchange difference on translation of overseas operations not recognised in the income statement and net expenses recognised directly in equity	-	-	-	-	-	-	12	-	12
Impairment loss recognised	-	-	-	2,490	-	-	-	-	2,490
Gain on expiry of warrants	-	-	-	-	(129)	-	-	-	(129)
Loss for the period	-	-	-	-	-	-	-	(58,291)	(58,291)
Total recognised income (expenses) during the period	-	-	-	2,490	(129)	-	12	(58,291)	(55,918)
Exercise of warrants	24,738	16,080	-	-	-	-	-	-	40,818
Transfer from other reserve to share premium due to exercise of warrants	-	13,677	-	-	(13,677)	-	-	-	-
Issue of warrants	-	-	-	-	24,161	-	-	-	24,161
Exercise of share options	2,500	4,875	-	-	-	-	-	-	7,375
Share issue expenses	-	(3)	-	-	-	-	-	-	(3)
At 30 September 2005, as restated	373,398	731,433	171,671	(43,681)	25,661	446	(118)	(942,266)	316,544



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Six months ended 30 September	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Net cash used in operating activities	(12,172)	(139,440)
Net cash from (used) in investing activities	6,705	(8,043)
Net cash from financing activities	34,923	159,944
Net increase in cash and cash equivalents	29,456	12,461
Cash and cash equivalents at 1 April	19,536	15,194
Effect of foreign exchange rate changes	38	12
Cash and cash equivalents at 30 September, representing bank balance and deposits with other financial institutions	<u>49,030</u>	<u>27,667</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost basis, except for investment properties and financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the unaudited condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006 except as described in note 3 below.

### 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current interim period, the Group has applied, for the first time, a number of Standards, Amendments and Interpretations (new "HKFRS"s) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new Standards, Amendment and Interpretations ("INT"s) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standard, Amendment or INTs will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: disclosures <sup>1</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>3</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

Income statement for the period ended 30 September

2006

Turnover

	Chinese information				
	Publishing HK\$'000	infrastructure HK\$'000	Investment HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	23,733	209	2,490	–	26,432
Inter-segment sales	–	–	1,379	(1,379)	–
Total turnover	<u>23,733</u>	<u>209</u>	<u>3,869</u>	<u>(1,379)</u>	<u>26,432</u>
Segment results	<u>1,744</u>	<u>(7,186)</u>	<u>(2,983)</u>		(8,425)
Unallocated corporate expenses					(19,844)
Finance cost					(73)
Share of result of associates					(672)
Gain on disposal of subsidiaries					1,726
Gain on disposal of associates					<u>1,376</u>
Loss before taxation					<u>(25,912)</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

#### Business segments (continued)

2005

Turnover

	Publishing HK\$'000	Chinese information infrastructure HK\$'000	Investment HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	25,248	210	–	–	25,458
Inter-segment sales	–	2	–	(2)	–
Total turnover	<u>25,248</u>	<u>212</u>	<u>–</u>	<u>(2)</u>	<u>25,458</u>
Segment results	<u>3,438</u>	<u>(23,281)</u>	<u>(9,982)</u>		(29,825)
Unallocated corporate expenses					(15,670)
Finance cost					(1,525)
Allowance for loans to an associate					(5,400)
Share of result of associates					(3,195)
Share of result of a jointly controlled entity					(315)
Impairment loss recognised in respect of goodwill reserve					(2,490)
Gain on expiry of warrants					<u>129</u>
Loss before taxation					<u>(58,291)</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

#### Geographical segments

The Group's operations are located in Hong Kong and other regions in the People's Republic of China (the "PRC").

The following table provides an analysis of the Group's turnover by location of markets, irrespective of the origin of the goods/services:

#### 2006

Turnover

	Hong Kong HK\$'000	PRC HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	26,432	–		26,432
Inter-segment sales	1,379	–	(1,379)	–
Total turnover	<u>27,811</u>	<u>–</u>	<u>(1,379)</u>	<u>26,432</u>
Segment results	<u>(27,158)</u>	<u>(1,111)</u>	<u>–</u>	<u>(28,269)</u>
Finance cost				(73)
Share of result of associates				(672)
Gain on disposal of subsidiaries				1,726
Gain on disposal of associates				<u>1,376</u>
Loss before taxation				<u>(25,912)</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

#### Geographical segments (continued)

2005

Turnover

	Hong Kong HK\$'000	PRC HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	25,337	121	–	25,458
Inter-segment sales	2	–	(2)	–
Total turnover	<u>25,339</u>	<u>121</u>	<u>(2)</u>	<u>25,458</u>
Segment results	<u>(44,288)</u>	<u>(1,207)</u>		(45,495)
Finance cost				(1,525)
Allowance for loans to an associate				(5,400)
Share of result of associates				(3,195)
Share of result of a jointly controlled entity				(315)
Impairment loss recognised in respect of goodwill reserve				(2,490)
Gain on expiry of warrants				<u>129</u>
Loss before taxation				<u>(58,291)</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 5. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Loss before taxation has been arrived at after charging (crediting):		
Staff costs	8,963	13,795
Recognition of equity-settled share-based payments	11,749	–
Depreciation and amortisation of property, plant and equipment	2,718	2,853
Bank interest income	(243)	(166)
	<u>          </u>	<u>          </u>

### 6. FINANCE COSTS

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Interest on secured borrowing	–	1,519
Interest on finance lease	7	6
Interest on convertible bonds	66	–
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	73	1,525

### 7. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no estimated assessable profit for the period. The Group also had no assessable profits in other jurisdiction for the period.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$25,912,000 (2005: HK\$58,291,000) and the weighted average number of 3,809,935,926 (2005: 3,734,669,763) ordinary shares in issue during the period.

No diluted loss per share has been presented for both periods because the exercise of the Company's outstanding share options, warrants and convertible bonds would reduce loss per share.

### 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired equipment amounting to approximately HK\$59,000 (2005 : HK\$784,000).

At 30 September 2006, the directors considered the carrying amount of the Group's leasehold land and buildings carried at revalued amounts and estimated that the carrying amounts does not differ significantly from that which would be determined fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

The Group's investment properties were fair-valued by the director at 30 September 2006. There were no change in fair value on the investment property as at 30 September 2006.

### 10. TRADE DEBTORS

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
0 – 60 days	4,499	4,976
61 – 90 days	3,524	228
Over 90 days	1,352	1,364
	<u>9,375</u>	<u>6,568</u>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 11. TRADE CREDITORS

The following is an aged analysis of trade creditors at the balance sheet date:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
0 – 60 days	3,280	4,229
61 – 90 days	4,472	1,233
Over 90 days	832	1,901
	<u>8,584</u>	<u>7,363</u>

### 12. OBLIGATIONS UNDER FINANCE LEASES

	<b>Minimum lease payments HK\$'000</b>	<b>Present value of minimum lease payments HK\$'000</b>
Amounts payable under finance leases :		
Within one year	36	32
In the second to fifth years inclusive	99	87
	<u>135</u>	<u>119</u>
Less: future finance charges	(16)	–
Present value of lease obligation	<u>119</u>	119
Less: amount due for settlement within one year shown under current liabilities		<u>(32)</u>
Amount due for settlement after one year shown under non-current liabilities		<u>87</u>

The lease term in respect of the furniture and equipment held under the finance lease is 5 years.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 13. SHARE CAPITAL

	Number of shares		Share capital	
	30 September 2006 '000	31 March 2006 '000	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At the beginning of the period	6,000,000	6,000,000	600,000	600,000
Increase on 24 August 2006	4,000,000	–	400,000	–
At the end of the period	<u>10,000,000</u>	<u>6,000,000</u>	<u>1,000,000</u>	<u>600,000</u>
Issued and fully paid :				
At the beginning of the period	3,733,980	3,461,600	373,398	346,160
Exercise of share options	–	25,000	–	2,500
Exercise of warrants	–	247,380	–	24,738
Exercise of convertible bonds	290,000	–	29,000	–
At the end of the period	<u>4,023,980</u>	<u>3,733,980</u>	<u>402,398</u>	<u>373,398</u>

### 14. WARRANTS

On 18 August 2005, the Company entered into a conditional placing agreement with a placing agent in relation to the private placing of 660,000,000 warrants conferring rights to subscribe up to approximately HK\$113,520,000 in cash for shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.172 per share during the period from 3 October 2005 to 2 October 2007, both days inclusive. The placing of Warrants was completed on 28 September 2005.

The net proceeds of the placing of approximately HK\$24,145,000 were used for general working capital of the Group.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 15. CONVERTIBLE BONDS

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK\$36 million convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK\$36 million to be issued by the Company. The net proceeds of issue of the Tranche 1 Convertible Bonds and Tranche 2 Convertible bonds (collectively "Convertible Bonds") is HK\$0.1 per new ordinary share of HK\$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds were approximately HK\$34.9 million will be used as general working capital of the Group.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bonds. The residual amount, representing the value of equity conversion component, included in shareholders' equity in other reserve.

The carrying value of the liability component of the Convertible Bonds at 30 September 2006, which approximately its fair value, is calculated using cash flows discounted at an effective borrowing rate of 8.49% per annum.

As at 30 September 2006, 6 registered holders of HK\$29,000,000 have converted their Convertible Bonds into ordinary shares of the Company.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 16. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with certain related parties:

	Rental income received from related companies		Other income received from related companies		Other expenses paid to related companies		Amounts due from related companies		Amounts due to related companies	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	163	378	30	78	192	436	50,202	77,889	883	–
Subsidiaries of a shareholder	56	126	19	26	–	14	–	7,377	–	788
Jointly controlled entity	–	–	–	–	–	–	–	1,722	–	–

### 17. CAPITAL COMMITMENTS

At the balance sheet date, the Company has no significant capital commitments.

### 18. LITIGATION

In May 2003, Winway H.K. Investments Limited (“Winway”), a wholly owned subsidiary of the Company, has placed 300,000,000 shares (the “Q9 shares”) of Q9 Technology Holdings Limited (“Q9 Technology”) with TKR Finance Limited (“TKR Finance”) for safe custody and to facilitate management of Q9 Shares. In June 2004, Winway was informed by Q9 Technology that it had received a copy of the disclosure of interests form filed pursuant to the Securities and Futures Ordinance by the provisional liquidator of TKR Finance claiming security interest in the Q9 Shares. Winway had sought legal advice and had notified the provisional liquidator of TKR Finance about its title to the Q9 Shares and demanded the return of the shares from TKR Finance. In November 2006, Q9 shares were returned from the provisional liquidator to Winway.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the period ended 30 September 2006, the Group's overall turnover was slightly increased approximately by 4% to approximately HK\$26,432,000 over last period, of which approximately HK\$23,733,000, HK\$209,000 and HK\$2,490,000 (2005: HK\$25,248,000, HK\$210,000 and HK\$: nil) were attributable to our business of comics publication, Chinese information infrastructure and rental income from investment properties respectively. Decrease in turnover of comics publication was mainly resulted from a drop of approximately HK\$1,835,000 in our Japanese comics business for the period.

The Group's consolidated net loss attributable to shareholders decreased approximately by 56% to approximately HK\$25,912,000 as compared to that of the last period. The loss per share for the period was HK0.68 cents (2005: HK1.56 cents). The significant improvement was mainly resulted from the adjustments made to the development plans of our IT core technologies and the related assets investments. As a result, no further research and development expenditure was incurred for the technology projects and certain non-core investments in subsidiaries and associates were disposed during the period. In addition, the effective cost controls implemented by the management resulted in the decrease in total staff costs for the period by approximately 35%. However, due to the adoption of the new HKFRSs "Share-based Payment", the Group recognised the expenses of approximately HK\$11,749,000 in relation to share options granted to employees and consultants of the Group during the period (2005: nil).

At 30 September 2006, the Group's net asset value was HK\$235,141,000 and net asset value per weighted average number of 3,809,935,926 shares of the Company was approximately HK\$0.06 (2005: HK\$0.08).

### Convertible Bonds

On 19 June 2006, the Company and the placing agent entered into a conditional placing agreement, pursuant to which the placing agent agreed to place up to an aggregate principal amount of HK\$36,000,000 convertible bonds ("Tranche 1 Convertible Bonds") to be issued by the Company. The Company may at its option, by written notice to require the respective holders of the Tranche 1 Convertible Bonds to subscribe for another convertible bonds ("Tranche 2 Convertible Bonds") up to an aggregate principal amount of HK\$36,000,000 to be issued by the Company. The conversion price of Tranche 1 Convertible Bonds and Tranche 2 Convertible Bonds (collectively "Convertible Bonds") is HK\$0.1 per new ordinary share of HK\$0.1 each in the share capital of the Company. The net proceeds of the issue of the Tranche 1 Convertible Bonds were approximately HK\$34,978,000 and will be mainly used as general working capital of the Group. The placing of the Tranche 1 Convertible Bonds was completed on 10 August 2006.

As at 30 September 2006, 6 registered holders of Tranche 1 Convertible Bonds exercised their rights to convert for the Company's shares.

## **MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

### **Liquidity and Financial Resources**

As at 30 September 2006, the Group had bank and cash balances in aggregate of approximately HK\$49,030,000 and held-for-trading investment of approximately HK\$18,568,000. The Group has no significant exposure to foreign exchange rate fluctuation.

As at 30 September 2006, the Group had a net current asset of approximately HK\$97,533,000 (31 March 2006: HK\$72,999,000) and a current ratio of 6.08 (31 March 2006: 4.77). The Group's total liabilities as at 30 September 2006 amounted to approximately HK\$28,681,000 and represented approximately 12.7% (31 March 2006: 10.81%) to shareholders' equity.

In view of the above, the Directors believe that the Group will have sufficient liquidity to finance its daily operation, and the proceeds from exercise of warrants and subscription of Convertible Bonds in the future would further strengthen the financial position of the Group.

### **Employment and Remuneration Policies**

As at 30 September 2006, the Group had a total of 86 employees of which 52 are based in Hong Kong, 32 in Macau and 2 in the PRC. Total staff costs incurred during the period amounted to approximately HK\$8,963,000 (2005: HK\$13,795,000). Remuneration packages are maintained at competitive level and review by the management on a periodical basis. Discretionary bonuses and incentive share options are awarded to certain directors and employees according to the assessment of individual merit and performance.

### **INTERIM DIVIDEND**

The Board of Directors of the Company has resolved not to declare an interim dividend for the six months ended 30 September 2006 (2005: nil).

### **REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the listed securities in the Company during the six months ended 30 September 2006.

## SHARE OPTION SCHEME

The Company has terminated its share option scheme adopted on 15 June 1993 (the “1993 Scheme”) and adopted a new share option scheme (the “2002 Scheme”) on its 2002 Annual General Meeting held on 21 August 2002.

Subsequent to the termination of the 1993 Scheme, no further share options can be granted thereunder but in all other respects, the provisions of the 1993 Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

Details of the movement of the share options granted to the Directors and employees of the Company under the 1993 Scheme during the six months ended 30 September 2006 are as follows:

	Date of Grant	At 1 April 2006	Lapsed during the period	Number of share options Granted/ Exercised/ Cancelled during the period	At 30 September 2006	Exercise price per share <i>HK\$</i>	Exercisable Period
<b>(a) Directors</b>							
Mr. Cheung Wai Tung	3 March 2000	4,565,000	–	–	4,565,000	1.680	3 March 2000 to 2 March 2010
Mr. Chu Bong Foo	(i) 27 August 1999	10,000,000	–	–	10,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) 3 March 2000	2,000,000	–	–	2,000,000	1.680	3 March 2000 to 2 March 2010
Mr. Henry Chang Manayan	(i) 27 August 1999	1,000,000	–	–	1,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) 3 March 2000	500,000	–	–	500,000	1.680	3 March 2000 to 2 March 2010
Mr. Wan Xiaolin	3 March 2000	1,000,000	–	–	1,000,000	1.680	3 March 2000 to 2 March 2010
<b>(b) Employees</b>	3 March 2000	25,035,000	(7,370,000)	–	17,665,000	1.680	3 March 2000 to 2 March 2010

## SHARE OPTION SCHEME (CONTINUED)

Details of the movement of the share options granted under the 2002 Scheme during the six months ended 30 September 2006 are as follows:

	Date of Grant	Number of share options					At 30 September 2006	Exercise price per share	Exercisable Period	Price of the Company's shares at immediately preceding the grant date of share options (note)
		At 1 April 2006	Granted during the period	Lapsed during the period	Exercised/Cancelled during the period					
							HK\$		HK\$	
<b>(a) Directors</b>										
	Mr. Cheung Wai Tung	19 December 2003	4,000,000	-	-	-	4,000,000	0.265	19 December 2003 to 18 December 2013	N/A
	Mr. Henry Chang Manayan	19 December 2003	1,000,000	-	-	-	1,000,000	0.265	19 December 2003 to 18 December 2013	N/A
	Mr. Wan Xiaolin	19 December 2003	3,000,000	-	-	-	3,000,000	0.265	19 December 2003 to 18 December 2013	N/A
<b>(b) Employees</b>										
	(i)	19 December 2003	37,700,000	-	(6,300,000)	-	31,400,000	0.265	19 December 2003 to 18 December 2013	N/A
	(ii)	24 March 2005	71,000,000	-	(3,500,000)	-	67,500,000	0.295	24 March 2005 to 23 March 2015	N/A
	(iii)	7 July 2006	-	46,600,000	-	-	46,600,000	0.101	7 July 2006 to 6 July 2016	0.099
<b>(c) Others</b>										
	(i)	19 December 2003	20,000,000	-	-	-	20,000,000	0.265	19 December 2003 to 18 December 2013	N/A
	(ii)	24 March 2005	202,000,000	-	-	-	202,000,000	0.295	24 March 2005 to 23 March 2015	N/A
	(iii)	3 October 2005	30,000,000	-	-	-	30,000,000	0.212	3 October 2005 to 2 October 2015	N/A
	(iv)	7 July 2006	-	296,400,000	-	-	296,400,000	0.101	7 July 2006 to 6 July 2016	0.099

**Note:** The price of the Company's share disclosed as at immediately preceding the date of the grant of the share options is The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price on the trading day immediately prior to the date of the grant of the share options.



## SHARE OPTION SCHEME (CONTINUED)

During the period, 343,000,000 share options were granted on 7 July 2006. The fair value of the share options determined at the date of grant using the Black-Scholes Option Pricing Model was HK\$11,748,987.

The following assumptions were used to calculate the fair value of share options:

Weighted average share price	HK\$0.101
Exercise price	HK\$0.101
Expected volatility	55.81%
Expected life	2 years
Risk-free rate	4.587
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over one year. The expected life used in the Model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expenses of approximately HK\$11,748,987 for the period ended 30 September 2006 in relation to share options granted by the Company.

## DISCLOSURE OF INTERESTS

### (a) Interests of the Directors

As at 30 September 2006, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

#### Interests in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	160,180,000	7.03%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (note 1)	
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000	0.05%
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000	0.01%

Note:

- 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

*All interests stated above represent long positions.*

## DISCLOSURE OF INTERESTS (CONTINUED)

### Interests in the share option of the Company

Name of Director	Capacity	Nature of interests	Number of share options	Exercise price per share HK\$	Exercisable period	Approximate percentage of issued share capital
Mr. Cheung Wai Tung	(i)	Beneficial owner	Personal interest 4,565,000 <i>(note 1)</i>	1.680	3 March 2000 to 2 March 2010	0.21%
	(ii)	Beneficial owner	Personal interest 4,000,000 <i>(note 1)</i>	0.265	19 December 2003 to 18 December 2013	
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest 10,000,000 <i>(note 2)</i>	0.264	27 August 1999 to 26 August 2009	0.30%
	(ii)	Beneficial owner	Personal interest 2,000,000 <i>(note 2)</i>	1.680	3 March 2000 to 2 March 2010	
Mr. Henry Chang Manayan	(i)	Beneficial owner	Personal interest 1,000,000 <i>(note 3)</i>	0.264	27 August 1999 to 26 August 2009	0.06%
	(ii)	Beneficial owner	Personal interest 500,000 <i>(note 3)</i>	1.680	3 March 2000 to 2 March 2010	
	(iii)	Beneficial owner	Personal interest 1,000,000 <i>(note 3)</i>	0.265	19 December 2003 to 18 December 2013	
Mr. Wan Xiaolin	(i)	Beneficial owner	Personal interest 1,000,000 <i>(note 4)</i>	1.680	3 March 2000 to 2 March 2010	0.10%
	(ii)	Beneficial owner	Personal interest 3,000,000 <i>(note 4)</i>	0.265	19 December 2003 to 18 December 2013	

## DISCLOSURE OF INTERESTS (CONTINUED)

*Notes:*

1. Pursuant to the 1993 Scheme, Mr. Cheung Wai Tung was granted share options by the Company on 3 March 2000 to subscribe for 4,565,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. On 19 December 2003, Mr. Cheung was further granted share options by the Company to subscribe for 4,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.
2. Pursuant to the 1993 Scheme, Mr. Chu Bong Foo was granted share options by the Company (i) on 27 August 1999 to subscribe for 10,000,000 shares at the exercise price of HK\$0.264 per share for the exercisable period from 27 August 1999 to 26 August 2009; and (ii) on 3 March 2000 to subscribe for 2,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010.
3. Pursuant to the 1993 Scheme, Mr. Henry Chang Manayan was granted share options by the Company (i) on 27 August 1999 to subscribe for 3,000,000 shares at the exercise price of HK\$0.264 per share for the exercisable period from 27 August 1999 to 26 August 2009; and (ii) on 3 March 2000 to subscribe for 500,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. Mr. Henry Chang Manayan exercised his share options to subscribe for the aggregate of 2,000,000 shares at the exercise price of HK\$0.264 on 18 February 2000 and 6 April 2004 respectively. On 19 December 2003, he was further granted share options by the Company to subscribe for 1,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.
4. Pursuant to the 1993 Scheme, Mr. Wan Xiaolin was granted share options by the Company on 3 March 2000 to subscribe for 1,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3 March 2000 to 2 March 2010. On 19 December 2003, Mr. Wan was further granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19 December 2003 to 18 December 2013 under the 2002 Scheme.

*All interests stated above represent long positions.*

Save as disclosed above, as at 30 September 2006, none of the Directors nor chief executive of the Company had interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

## DISCLOSURE OF INTERESTS (CONTINUED)

### (b) Interests of Substantial Shareholder

As at 30 September 2006, so far as is known to any Director or chief executive of the Company, the following person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO:

#### Interests in the shares of the Company

Name	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	160,180,000	7.03%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (note 1)	

Note:

- 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

All interests stated above represent long positions.

#### Interest in the share options of the Company

Name	Capacity	Nature of interest	Number of share options	Approximate percentage of issued share capital
Mr. Chu Bong Foo	Beneficial owner	Personal interest	12,000,000	0.30%

The interest stated above represents long position.

Save as disclosed above, as at 30 September 2006, the Directors and the chief executive of the Company were not aware of any person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

## AUDIT COMMITTEE

The Audit Committee, with written terms of reference in line with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange, currently comprises three independent non-executive Directors, namely Mr. Lai Man To, Mr. Wang Tiao Chun and Mr. Joseph Lee Chennault. The Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2006.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2006 except for the following deviations:

### Code Provision A.2.1

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer (“CEO”) should be separated and should not be performed by the same individual. The Company does not at present have any officer with the title of “CEO” but instead the duties of a CEO are performed by Mr. Cheung Wai Tung, the Chairman of the Company in the same capacity as the CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies.

### Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors of the Company are not appointed for a specific term. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 110(A) and 190(v) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

### Code Provision E.1.2

Under the Code provision E.1.2, the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Cheung Wai Tung was unable to attend the annual general meeting of the Company held on 24 August 2006 as he was on business trip for other important business engagement. However, an Executive Director, present at the annual general meeting who then took the chair of that meeting in accordance with the Bye-Laws of the Company.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the “Model Code”). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 September 2006.

By Order of the Board  
**Cheung Wai Tung**  
*Chairman*

Hong Kong, 19 December 2006