

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The financial year 2004 is a year full of challenges and opportunities in the People's Republic of China (the "PRC"). We have witnessed a strong recovery of the PRC economy since the last quarter of 2003 after the outbreak of SARS – noticeably in the growth of advertising spending. Based on the source from ACNielsen AdQuest, actual spending in advertising in 2003 was about RMB198,646 million while the forecast for 2004 is RMB268,172 million representing a growth of 35% over previous year. It is projected that advertising spending in the PRC will reach RMB348,623 million in 2005, representing a growth of 30%.

With a population of 1.3 billion and a television penetration rate of about 95%, the PRC has the largest TV audience in the world. According to ACNielsen AdQuest, it is estimated that about 72% of the total advertising revenue will be generated

through TV media in 2004. Based on the information of CVSC – TNS Research Co., Ltd. total advertising expenditures on TV drama series in the PRC represented about 48% of the total advertising expenditures on TV in 2003. TV broadcasting industry especially drama series is therefore a magnet for advertisers and an attractive market for content providers.

Business Review

The year under review is an exciting year for the Group. Aegis Group plc, a public company listed on the London Stock Exchange and one of the world's five largest media groups became the second largest shareholder of the Company at the end of 2003. On 30 June 2004, shares of the Company commenced trading on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") following a successful initial public offer ("IPO"). The Group now not only has



The Group was publicly listed on the Main Board of the Stock Exchange on 30 June 2004.



Mr. Doug Flynn, Global CEO of Aegis Group plc, the second largest shareholder of the Group, delivered a speech at the cocktail to celebrate successful listing.



Shu Zhan, President of Fujian Broadcast Film and Television Group, a major business partner of the Group donated for auction a Chinese calligraphy drawing painted by him. Aegis Group plc won the painting with a bid offer of HK\$300,000 and the sum was donated to The Chinese University of Hong Kong and Projects Hope in Fujian Province.

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All Directors took a picture at the trading floor of the Stock Exchange after the Group was officially listed.



The Honourable Dr. Wong Yu Hong, Philip, GBS, Chairman of the Group, Mr. Doug Flynn, Global CEO of Aegis Group plc, and Mr. Liu Yuk Chi, David, CEO, Asia Pacific, Aegis Group plc, presented gift of appreciation to Mr. Paul Chow, JP, Chief Executive Officer of the Stock Exchange and Mr. Stephen Hui, JP, member of Listing Committee of the Stock Exchange for successful listing.



The Board of Directors proposed a toast at the cocktail party held to celebrate successful listing.

the financial strength to expand its operation, but also the opportunity to expand its client base to international corporations worldwide through the strategic alliance with Aegis Group plc.

Operating Results for the Year

Turnover

For the year ended 30 September 2004, the Group achieved a turnover of HK\$85.5 million (2003: HK\$56.2 million), representing an increase of 52% over last year.

During the year under review, the Group derived TV programme related income of HK\$33.9 million (2003: HK\$30.5 million), an increase of 11% over last year, and marketing related income of HK\$14.8 million (2003: HK\$14 million), an increase of 6% over last year.

TV drama series completed in prior years such as "The Struggle of a Dynasty" continued to generate income for the Group, representing 34% of total

TV programme related and marketing related income for the year. TV drama series "Second Chance" and "Come with Me" of 58 hours were completed and broadcast during the year. The two TV dramas generated both TV programme related and marketing related income including commission income from the procurement of investment in TV programmes, TV programme support service income, licencing fee income from granting distribution licence rights and marketing service income, representing 41% of total TV programme related and marketing related income for the year under review. "The Well", a Chinese ancient

The Honourable Dr. Wong Yu Hong, Philip, Chairman of the Group, delivered a speech at the trading floor of the Stock Exchange of Hong Kong on the day the Group was publicly listed.



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Big smiling faces of the two major shareholders



The Board of Directors together with Mr. and Mrs. Doug Flynn and Mr. Liu Yuk Chi, David took a picture at the viewing gallery of the Stock Exchange.

costume TV drama series was in the post-production stage and started to generate income from the provision of support services including provision of scripts, introducing key TV crews, design and supply of props and costumes. Besides, the Group started to derive income from two new TV drama series, namely "Story of A Pretty Girl" and "Love with No Promise", which were in the production preparation stage.

The Group continued to grant distribution licence rights of TV drama series to third parties and earned licencing fee income of about HK\$21 million (2003: HK\$18.9 million), an increase of 11% over last year. The Group derived licencing fee income from broadcasting licence rights of TV drama series subsequent to the first round broadcasting in the PRC, distribution licence rights of TV drama series outside the PRC and Hong Kong, DVDs and VCDs distribution licence rights in the PRC.

For the year under review, the Group gained an encouraging increase in public relations service income including mainly TV programme related sponsorship income from the Group's core clients who were also sponsors of TV drama series. The

Group recorded public relations service income of HK\$36.7 million (2003: HK\$11.8 million), three-fold of last year. To enhance the Group's competitiveness in the market, the Group would continue to provide value-added services to our core clients who mainly are sponsors of TV drama series. 35% (2003: 18%) of the Group's total revenue was attributable to TV programme related sponsorship income and the sales of entitlement right from these core clients of TV programmes. The Group earned sponsorship income through soft advertising such that products of the advertisers would be used as props or costumes for the TV programmes and the scripts would include messages to promote the products of the advertisers.

Gross profit

Gross profit of the Group amounted to HK\$69 million (2003: HK\$50.3 million) in the year under review representing an increase of 37% over last year. Increase in gross profit was in line with the substantial increase in turnover for the year. The drop in gross profit margin to 81% (2003: 90%) was mainly due to the increase in revenue from

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Hair styling contest organised by the Group for Alberto Culver Shampoo. The scene was included in the TV drama series "Second Chance" as soft advertising.



One of the promotional marketing event organised by the Group for Wahaha Group, the advertiser, "A Good Book for Destined People on Women's Day".



"The National Cleaning Campaign" organised by the Group before Chinese New Year for Whitecat has been held for three consecutive years.

public relations services provided for core clients who were also sponsors of TV programmes which yielded lower gross profit margin.

Administrative and other operating expenses

During the year, administrative and other operating expenses amounted to HK\$14.7 million (2003: HK\$ 9.5 million) representing an increase of 55% over last year. The increase was mainly due to the increase in directors' emolument as there were 10 Non-executive Directors appointed during the year plus the increment in salaries of executives following the successful listing of the Company on the Stock Exchange. In addition, more qualified staff were hired during the year to support the business expansion.

Finance costs

Finance costs for the year amounted to approximately HK\$2.6 million (2003: HK\$2.2 million) representing an increase of 17% from last year as a result of the full year effect of the finance costs of additional bank borrowings obtained during the previous financial year to finance the Group's operations and the acquisition of land and buildings in the PRC.

Income tax

The Group's income tax represented the provision of PRC income tax of HK\$1.6 million, compared to HK\$2.8 million in prior year. PRC income tax of the subsidiaries established in Shenzhen, the PRC



Event of "Whitecat helps every family have a clean and healthy Chinese New Year" is now one of the successful brand promotional events for Whitecat's liquid detergent and laundry detergent powder.

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Kid's programmes co-ordinated specifically for Maxam Toothpaste were promoted nationwide and were very popular among children.



The puppet show for children, "Pao Pao Wa", sponsored by Maxam Toothpaste, the exclusive sponsor of TV drama series "Come with me", will be played nationwide for over 100 shows as organised by the Group.



"Gansu TV Contemporary Evening Party" held specifically to promote the "Brightness Campaign for Children in the Western District" in the PRC for Shenzhen Skyworth RGB Electronic Co., Ltd., one of the advertiser.

was calculated at 15% which is the tax rate applicable to foreign investment enterprises located and operated in Shenzhen. Income tax on other PRC sourced income was calculated at the applicable tax rate of 15% or 33% where appropriate on a deemed profit basis.

Profit attributable to shareholders

Profit attributable to shareholders for 2004 was HK\$50.4 million (2003: HK\$36 million) representing an increase of 40%.

Basic earnings per share of HK15.46 cents (2003: HK12.01 cents) was calculated based on the profit attributable to shareholders of HK\$50,361,000 (2003: HK\$36,041,000) and the weighted average number of 325,683,060 (2003: 300,000,000) ordinary shares outstanding after the group reorganisation to prepare for the Company's public listing and the capitalisation issue as if those shares had been outstanding from 1 October 2002.

Diluted earnings per share was not disclosed as there were no dilutive potential ordinary shares in existence during the year.

Licence rights

During the financial year, the Group acquired licence rights of TV dramas amounting to HK\$9.6 million (2003: Nil).

Long term deposits

On 24 October 2003, the Group entered into an agreement with Shanghai Yali Culture Communication Co., Ltd. in respect of a piece of land situated in Dongguan, the PRC, for the development of a building, which includes a production centre. Construction of the building will be completed in phases. As at 30 September 2004, the Group had paid HK\$5.5 million (2003: Nil) as advance rental payment and HK\$3 million (2003: Nil) as deposit to secure the Group's right to purchase the property at 5%-10% discount on its prevailing market value within the first three years upon completion of the construction of the property.

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Accounts receivable

Balance of accounts receivable including long term receivables as at year end was HK\$33.5 million (2003: HK\$39.2 million), a decrease of 14% from last year. Debtors' turnover days, calculated as accounts receivable including long term receivables at the year end divided by turnover for the year multiplied by the number of days in the year also improved to 143 days (2003: 255 days). This was mainly because of the settlement of an account with a long credit period granted and the increase in TV programme related sponsorship income which had a shorter settlement cycle.

Reimbursements receivable

Balance of reimbursements receivable as at year end was HK\$58.1 million (2003: HK\$33.5 million) representing an increase of 74% from last year. The increase was mainly due to the increase in the number of TV drama series financed to 8 during the year compared to 5 in 2003.

Prepayments, deposits and other receivables

Balance of prepayments, deposits and other receivables as at year end was HK\$12.1 million (2003: HK\$13.7 million). It mainly represented prepaid promotional expenses, deposits paid to secure the Group's right to host a number of events and to acquire sponsorship rights.

Liquidity and financial resources

During the year, the Group financed its operations and investing activities mainly with internally generated cash flow, bank loans and proceeds from the IPO.

As at 30 September 2004, the Group had outstanding bank borrowings of approximately HK\$ 31.2 million (2003: HK\$41.7 million), comprising secured bank loans of approximately HK\$24.5 million (2003: HK\$34.7 million) and mortgage bank loans of HK\$6.7 million (2003: HK\$7 million). Total bank borrowings comprised an amount of HK\$5.4 million (2003: HK\$5.7 million) which was repayable after five years, HK\$0.8 million (2003: HK\$0.8 million) which was repayable after two years but within five years, HK\$0.2 million (2003: HK\$0.2 million) which was repayable after one year but within two years, and HK\$24.8 million (2003: HK\$35 million) which was repayable within one year. Other than the mortgage

CEO of the Group, Dr. Leung Anita Fung Yee Maria



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bank loans which were long term bank borrowings and bore interest at approximately 4% per annum, the remaining bank borrowings were short term revolving loans which bore interest at approximately 5% per annum. As at 30 September 2004, all bank borrowings were denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB") (2003: HKD and RMB).

As at 30 September 2004, undrawn bank loan facilities amounted to HK\$50 million which comprised revolving loans and overdrafts in HKD bearing interest at spreads either above or below HIBOR and HKD prime rate.

As at 30 September 2004, the Group's total cash and bank balances amounted to HK\$113.1 million (2003: HK\$15.6 million) of which balances of HK\$107.6 million were in HKD and remaining balances of HK\$5.5 million were in RMB. The increase in cash at bank and in hand was mainly due to the proceeds from the IPO and better operating results for the year.

The gearing ratio, defined as a per cent of total liabilities over total assets of the Group, was 20% as at 30 September 2004 (2003: 50%). Significant improvement was mainly due to the increase in cash at bank and in hand as aforesaid.

Mortgage and charges

As at 30 September 2004, the Group's bank loans of HK\$18.8 million were secured by the Group's properties with carrying value of approximately HK\$7.1 million and a corporate guarantee by the Company. The remaining balance of bank loans of approximately HK\$5.7 million was secured by fixed deposits of HK\$2.8 million placed with a bank and a joint guarantee by the Company and its wholly-owned subsidiary.

The Group also pledged its land and building in the PRC with carrying value of approximately HK\$9.6 million as at 30 September 2004 and a corporate guarantee was given by the Company as security for mortgage bank loans of approximately HK\$6.7 million.



Sponsor of TV drama series "Second Chance", Gang Zun Co, distributor of Alberto Culver Shampoo, held a national distribution meeting in 2004 for all distributors, which was organised by the Group.



The Group maintains a close and friendly relationship with the distributors of TV drama series and advertising sponsors and always organises social activities together.

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The Group obtained four sponsorship entitlement rights for New Silk Road Model Look International 2004 and its broadcasting right.



Non-executive Director of the Group and Regional Chief Financial Officer of Asia Pacific, Aegis Group plc, Mr. Pfitzner Kym Richard, was invited to be the judge for contest of New Silk Road Model Look International 2004 held in Hangzhou, the PRC and took a picture with the contestants.

Besides, undrawn bank loan facilities of HK\$50 million as at 30 September 2004 were secured by time deposits of HK\$25 million and corporate guarantees by the Company.

Contingent liabilities

The Group is not aware of any major contingent liabilities as at 30 September 2004.

Exposure to foreign exchange risk

The Group attempts to align the currencies of its loan portfolio with the currency mix of the Group's revenues. Transactions of the Group are mainly denominated either in HKD or RMB. The exposure to fluctuation in exchange risk is relatively low. The Group had not experienced any difficulties in obtaining government approval to make foreign exchange purchases when required. The Group had

not issued any financial instrument for hedging purpose.

Capital expenditure

As an one-stop shop for TV media services providing integrated services to production houses, investors of TV programmes, advertising agencies and advertisers, the Group acquired more props and costumes for TV programme shooting and derived income from design and supply of props and costumes for production houses.

Use of IPO proceeds

The proceeds from the IPO after deducting related expenses amounted to approximately HK\$97.3 million. During the year under review, no significant amount of the proceeds from the IPO had been used yet. The proceeds were deposited in bank accounts in Hong Kong.

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Marketing Department of the Group in meeting with client



The Group's Production and Distribution Control Department is responsible for quality control of the production of TV drama series and distribution policies.



Customer Relationship Department specializes in provision of all types of value added services to business partners and clients.

Material acquisitions and disposals

Apart from the group reorganisation in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, there was no acquisition or disposal of any subsidiary during the year.

Employees

As at 30 September 2004, the Group had a total of 43 employees (2003: 30), an increase of 13 employees over last year. Total cost of employees amounted to 4.4% (2003: 4.1%) of total turnover. Increase in headcount was mainly due to the increase in finance and marketing staff to cope with

the expansion of business. Salaries are maintained at competitive levels under which bonuses are calculated based on an evaluation of efforts and the financial performance of the Group. Other benefits include provident funds, insurance, medical cover and share option scheme.

Share Option Scheme

Pursuant to the written resolutions of the shareholders passed on 13 June 2004, the Company has established a Share Option Scheme whereby the Directors of the Company may, at their discretion, invite any full time or part time employees and Directors, consultants and advisers to the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares representing up to a maximum in nominal value of 30% of the issued share capital of the Company from time to time. The total number of shares available for issue under the scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange unless further shareholders' approval has been obtained. The total number of shares issued and to be issued upon exercise of the options granted and to be



Promotional events held for TV dramas series audience usually found no empty seats.

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granted (including both exercised and outstanding options) in any 12 months' period up to the date of grant to a substantial shareholder or an independent non-executive director or their associates would not exceed 0.1% of the shares in issue or an aggregate value of HK\$5,000,000 unless further shareholders' approval has been obtained; and to each other eligible person would not exceed 1% of the shares in issue. The purpose of the scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full time and part time), Directors, consultants and advisers of the Group and to promote the success of the business of the Group. The Share Option Scheme shall be valid and effective for a period of ten years ending on 12 June 2014. The exercise price of options shall be determined by the Board and shall not be less than the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options and the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer and the

nominal value of a share of the Company. An option may be exercised at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof.

No option has been granted, exercised, cancelled or lapsed during the year and up to the date of this report.

Business prospects

Effective 28 November 2004, foreign investors are allowed to form TV programme production joint ventures with Chinese media firms as a first step to open up the PRC's burgeoning media sector. Equipped with good track records in the industry, the Group is ready to capitalise on the opportunity through identifying quality production companies and talents to be our business partners and investing directly in the production of TV programmes through formation of TV programme production joint ventures. With this new regulation in effect and rising demands of contents from over



After public listing of the Company, the Group has strengthened the Finance and Operation Department by hiring more professionals. The Group will also move into the new office in Aon China Building in Central in 2005 and put more effort in investor relationship management.

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The Group provided TV programme related services to 'The Well', a large-scale ancient historical TV drama series which was completed in 2004.



Mr. Tse Kwan Ho, awarded the Best Actor in Golden Horse Film Awards is the leading actor in the TV drama series "Second Chance".

1,000 TV stations in the PRC and the advertisers for the PRC consumer market, the Group will focus on providing TV programme related services to large-scale TV drama series of good quality. If the right opportunity comes along, the Group will also engage in the production of quality large-scale TV programmes especially TV dramas series in the coming years. The Group is also looking for the opportunities to acquire scripts and story concepts to enable the Group to offer both investors and production houses a wider choice of scripts and story concepts for quality TV programmes. As a result of this strategy, the Group expects an increase in the quantity of TV dramas produced and the number of large-scale quality TV dramas. This will increase the profitability of the Group in the future

and pave the way for us to establish our brand name nationwide and create synergy effect, thus enable us to capture a bigger market share. The Group will at the same time explore the opportunities of the procurement of other types of TV programmes related business.

Starting from 2 March 2004, foreign investors are allowed to hold shareholding interest in advertising companies in the PRC not more than 70%. To further strengthen the Group's competitiveness in the market, the Group is also studying the possibility and feasibility of setting up joint ventures with advertising companies in the near future to strengthen its one-stop services to clients.

As stated in the prospectus dated 18 June 2004, part of the net proceeds from the IPO will be used for marketing related services to finance different stages of production of TV programmes in the form of reimbursements receivable to investors. The Group will also apply part of the proceeds from the IPO in the coming year to start the establishment of a production service centre in the PRC.

Siqin Gaowa, a world famous actress, takes a leading role in the large-scale modern TV drama series "The Struggle of a Dynasty" to which the Group provided TV programme related services.

