



INDUSTRY OVERVIEW

The economy of the People’s Republic of China (“China ” or “PRC”) continues to experience strong growth in 2005. According to the National Bureau of Statistics, the national GDP is expected to reach 9.2% this year (2004: 9.5%). This remarkable growth is also evident in boosted consumer spending as per capita income increases. With China’s entry into the World Trade Organization (“WTO”) and upcoming international events such as 2008 Olympics in Beijing, 2010 Shanghai World Expo and 2010 Asian Games in Guangzhou, many domestic and international companies will seize these opportunities to promote their brands,

products or services by increasing their budgets for promotion and advertising. According to Nielsen Media Research, advertising spending in China during first half of 2005 reached RMB143 billion, representing a growth of 20% from the same period last year. The Asian Wall Street Journal also reported that television advertising constitutes the bulk of advertising expenditures in China (about 80% for the first half of 2005), and this figure is estimated to grow at about 30% annually. Many analysts expect that by the end of 2010, China will be the world’s second-largest market for advertising, replacing Japan’s position just behind the United States.

Based on a forecast from the global audit firm PricewaterhouseCoopers, China’s entertainment and media industries will reach a compound annual growth rate of over 25% by 2009, and possibly surpass that of Japan in 18 months to become the No. 1 media advertising market in Asia. As disposable income increases, the

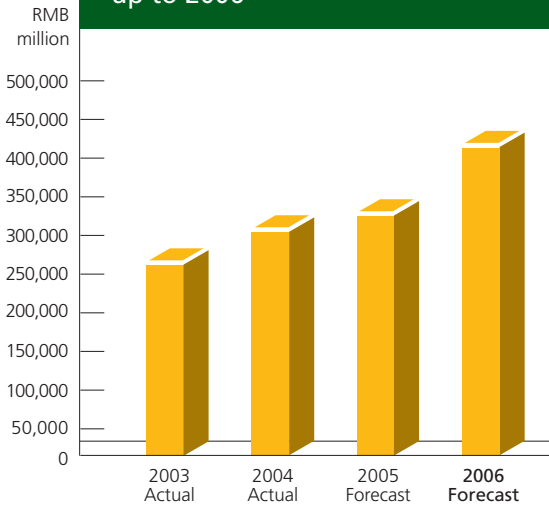
Dr. Anita Leung, CEO of the Group visited the shooting location of “The Ancient Capital – Dunhuang”, a TV drama series directed by Chen Jia Lin, the renowned director of “Kangxi Dynasty” broadcast at the China Central Television. Funding of this TV drama series is procured by the Group.



The Group continues to be a major sponsor of Miss Model Pageant.



Forecast trend of ad spend up to 2006



Source: Nielsen Media Research

demand for quality TV services will also increase. This intensifies the already fierce competition among all types of TV channels including pay TV, internet and other media for on-demand content.

It is believed that significant growth in advertisement revenues of TV stations is strongly related to an ideal viewing rate of prime time drama series. Therefore, high quality TV programming is essential for acquiring advertising rights on prime time which is valuable to our clients.

The Group's auditors, institutional investors and the business partners, accompanied by the management team, on filming location tour at "Mogao Cave" Dunhuang in mid-2005.



During the fiscal year 2005, based on its understanding of the market demand and media context of Mainland China, the Group continued to focus on the mainstream provision of one-stop planning services for quality episodic TV dramas, including production services, syndication programming services and public relations sponsorship management services. Meanwhile, the Group has been seeking to acquire agency rights platform for advertising on prime time from several major TV stations. We believe that operating from such a model will allow our clients to promote their products or services in the most cost-effective manner.

BUSINESS REVIEW

The Group continued to record strong and growing financial performance in fiscal year 2005. Following the public listing in 2004, the Group utilized the net proceeds from the placement to procure more up-scale and quality TV drama series for broadcast during TV prime time in the PRC. This gave the Group more opportunities to procure and plan clients’ advertisements on the TV programming commercial property. During the year under

review, the Group has provided planning and production services for 126 episodes/hours of TV drama series. Since quality TV dramas can effectively acquire ad spots as well as production-related services fees, the Group has started relying heavily on this method to acquire relevant rights of advertising platform for prime time from major TV stations in the PRC. Usually it takes more than a year and a half to complete a TV drama series from the initial concept stage. Large-scale historical productions involving complex costuming and set-design may take more than three years to complete. However, the financial returns on these drama series will continue to be reflected in subsequent years.

Over the years, the Group has gained invaluable in-depth knowledge on both the advertising and TV programme markets in Mainland China. Leveraged on both our professional and extensive business knowledge and experience, the forecast of returns on investment in PRC TV programmes has been rather accurate. Our successful budget control is one of the key factors that have led the Group to develop in a faster pace than expected, as it has earned



“Here Comes the Lord”, a TV drama production features a unique theme will be broadcast nationwide during prime time jointly at major provincial capital TV channels and four satellite channels in 2006. Funding of this TV drama is procured by the Group.

many win-win outcomes for our clients as well as our investors.

During 2005, the Group signed a co-operative joint venture agreement with Tianjin QJY Advertising Company Limited, a company established in the PRC, for the formation of a joint venture to carry on the business of advertising agency (Advertising Joint Venture) in the PRC. In addition, net proceeds of HK\$120.1 million raised by placement of shares in August to finance the Group's share of capital injection in the Advertising Joint Venture and support the development of beneficial advertising companies and invests in services related to TV programmes. With the proposed Advertising Joint Venture, as well as the procurement of investment and provision of planning services for producing more TV programmes, the Group is set to pierce through China's lucrative advertising market and media

entertainment industries at an accelerated speed.

OPERATING RESULTS FOR THE YEAR

Turnover

For the year ended 30 September 2005, the Group achieved an increase in turnover by 24% to HK\$106.3 million (2004: HK\$85.5 million).

Revenue from the TV programme related income recorded an increase of 65% to approximately HK\$56.0 million (2004: HK\$33.9 million). The marketing related income was HK\$16.5 million (2004: HK\$14.8 million), representing an increase by 11% compared to last year.

TV drama series completed in prior years continued to contribute for approximately 7% income to the Group. During the year, 126 episodes/hours of TV drama series were



The auditors and the institutional investors from Hong Kong shared the heat and enthusiasm of the crew on the shooting location of TV drama series "The Ancient Capital - Dunhuang".



"Golden Jubilee" a TV drama series with an appealing story line will be broadcast at the China Central Television soon. Funding of this TV drama series is procured by the Group.



completed and partly broadcast. These TV drama series generated 64% of total TV programme related and marketing related income for the year under review.

For the year under review, the Group recorded public relations service income of HK\$33.8 million (2004: HK\$36.7 million).

Gross Profit

Gross profit of the Group amounted to HK\$88.0 million (2004: HK\$69.0 million) in the year under review representing an increase of 28% over last year. Increase in gross profit was in line with the substantial increase in turnover for the year. There was an impressive growth in the services income during the year. Such increase did not give rise to the same proportion increase in the costs of services provided. As a result, the gross profit margin experienced a rise to 83% (2004: 81%) in the current year.

Administrative and other operating expenses

During the year, administrative and other operating expenses amounted to HK\$22.1

million (2004: HK\$14.7 million) representing an increase of 50% over last year. The increase was mainly due to more advisory and professional fees incurred to support the business expansion and fulfill the listing compliance requirements. There was also increment in salaries of executives and more qualified employees hired following listing in June 2004.

Profit attributable to shareholders

Profit attributable to shareholders for 2005 was HK\$66.2 million (2004: HK\$50.4 million) representing an increase of 31%.

Licence rights

During the fiscal year, the Group acquired licence rights of TV drama series amounting to HK\$19.0 million (2004: HK\$9.6 million).

Accounts receivable

Balance of accounts receivable, including long term receivables as at year end, was HK\$67.0 million (2004: HK\$33.5 million), an increase of one fold from last year. Debtors' turnover days, calculated as average accounts receivable



An "Eye Opening" charity event organized for Shenzhen Skyworth RGB Electronic Co., Ltd.. The event has been held for several years and benefited the blind children in Western China.



(including long term receivables) divided by turnover for the year multiplied by the number of days in the year, is 159 days (2004: 155 days).

Reimbursements receivable

Balance of reimbursements receivable as at year end was HK\$155.3 million (2004: HK\$58.1 million) representing an increase of 167% from last year. This increase is in line as number of TV drama series financed increased to 17 this year compared to 8 last year.

Liquidity and Financial Resources

During the year, the Group financed its operating and investing activities mainly with internally generated cashflow, bank loans and proceeds from the public listing. The Group also successfully raised new fundings through new share placements. The funds will be used to finance the set up of Advertising Joint Venture and investments in new projects.

As at 30 September 2005, the Group had outstanding bank borrowings of approximately

HK\$ 61.3 million (2004: HK\$31.2 million), comprising secured bank loans of approximately HK\$54.8 million (2004: HK\$24.5 million) and mortgage bank loans of HK\$6.5 million (2004: HK\$6.7 million). Total bank borrowings comprised an amount of HK\$5.2 million (2004: HK\$5.4 million) which was repayable after five years, HK\$0.8 million (2004: HK\$0.8 million) which was repayable after two years but within five years, HK\$0.3 million (2004: HK\$0.2 million) which was repayable after one year but within two years, and HK\$55.0 million (2004: HK\$24.8 million) which was repayable within one year. Other than the mortgage bank loans, which were long term bank borrowings and bore interest at approximately 4.6% per annum, the remaining bank borrowings were short term revolving loans which bore interest at floating rate. As at 30 September 2004 and 2005, all bank borrowings were denominated in Hong Kong Dollar and Renminbi.

The undrawn bank loan facilities amounted to HK\$70.4 million (2004: HK\$50.0 million).



Dr Anita Leung, a frequent guest of honour with major TV stations and programmes in China. The Group has developed a good bonding with the TV stations in the PRC during the past 10 years.



Famous Hong Kong actress Yung Ewong also stars in "The Ancient Capital – Dunhuang", a TV drama series with its funding procured by the Group.

As at 30 September 2005, the Group's total cash and bank balances amounted to HK\$157.4 million (2004: HK\$113.1 million) of which balances of HK\$150.8 million were in HKD and remaining balances of HK\$6.6 million were in RMB.

The gearing ratio, defined as per cent of total liabilities over total assets of the Group, was 18% as at 30 September 2005 (2004: 20%).

Mortgage and Charges

As at 30 September 2005, bank deposits of HK\$40.3 million (2004: HK\$27.8 million) pledged as security against banking facilities of HK\$125.2 million (2004: HK\$55.7 million) of which HK\$54.8 million (2004: HK\$5.7 million) were utilised at year end.

The Group also pledged its land and buildings in the PRC with carrying value of approximately HK\$9.4 million (2004: HK\$9.6 million) as at 30 September 2005 and a corporate guarantee was given by the Company as security for mortgage bank loans of approximately HK\$6.5 million (2004: HK\$6.7 million).

Use of Proceeds from Initial Public Offering ("IPO") and Placement

During the year under review, HK\$78.1 million of IPO proceeds were mainly utilised for purposes including the investment in the TV programme related business, financing TV production in the form of reimbursements receivable totalling HK\$46.8 million, the purchase of the exclusive adaptation rights of certain novels into TV programmes at HK\$6 million, the copyright of scripts together with story concepts at a consideration of HK\$10.2 million, and approximately HK\$4.9 million used to finance the establishment of a production centre in the PRC. The remaining proceeds amounted to HK\$19.2 million at year end.

In August 2005, the Group raised net proceeds (after expenses) of approximately HK\$120.1 million by placing and issuance of 70,000,000 new shares. The proceeds were not utilised in the year.

The unutilised balances were deposited in the bank accounts in Hong Kong.



Pan Hong and Jiang Wenli, two leading actresses starring in the drama series "Madam Yu-Ching" adopted from the novel by world renowned writer "Pai Hsien-Yung". The production is funded by investment procured by the Group.

The Group organised image and publicity campaign for China Exhibition Hall in Japan 2005 World Expo.



Contingent Liabilities

The Group is not aware of any material contingent liability as at 30 September 2005.

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 has not experienced any difficulties in obtaining government approval to make foreign exchange purchases when required. The Group has not issued any financial instrument for hedging purpose.

Material Acquisitions and Disposals

There was no acquisition or disposal of any subsidiary during the year.

Employees

As at 30 September 2005, the Group had a total of 25 employees (2004: 43), a decrease of 18 employees over last year. Total cost of employees amounted to 4.4% (2004: 4.4%) of total turnover. Instead of maintaining expatriate staff in the PRC, the Group hired local professional consultants who are knowledgeable

of local market and have good connections in the industry to support the growth of the Group. 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.

BUSINESS PROSPECTS

The overall economic picture for advertising, entertainment and media industries in the PRC is optimistic and promising. The Group is well-equipped to capitalize on these competitive opportunities to excel in services related to TV programme production, distribution, advertising and public relations. The Group has recruited quality production companies and talents to be business partners, and with our extensive nationwide coverage, the Group is set to attract more national and international advertisers to our clients and while sustaining the loyalty in existing clients at the same time.

The upcoming large-scale international events in the PRC will have a synergistic effect with the entrance of a range of other international activities. The Group will take advantage of

The country-wide "Clean Your House for Better Health" campaign organized by the Group for "White Cat" washing detergent for 4 consecutive years has made itself a successful branding activity in China before Chinese New Year.



PRC famous actress Jiang Wenli stars in one of the TV drama series funded by investments procured by the Group.

these promising opportunities to explore its public relations business. We expect the revenue from public relations services to increase at the beginning of next year, and a subsequent increase in the Group's income will follow.

Massive advertising and marketing campaigns are expected to flood into the PRC market as the consumers' purchasing power continues to grow and there are inevitable business opportunities with the upcoming Olympics Games, World Expo and Asian Games. In view of the attractiveness of this advertising boom and opportunities afforded by other advertising media such as magazines, radio and newspapers etc., the Group has secured a 10 year exclusive advertising rights to 10 children's and teenagers' magazines published by China Children's Press and Publication Group, one of the biggest publishing company in China. These publications are distributed to primary and secondary schools all over the country. The Group has also reached an agreement with China National Radio to exchange the adaptation rights (owned by the Group) of 2000 episodes of TV programme series for producing radio dramas based on TV dramas, with permanent broadcasting rights and 30 seconds of advertising rights when the radio drama is first

broadcast. The new developments allow the Group to extend its public relationship and event organization services to magazines and radio station to enhance their publicity.

The Group aims to be the sole company in the market operating as a "multi-media supermarket", offering a range of comprehensive packages to best meet our clients' needs with the convenience of a one-stop service. In addition to diversifying into other media opportunities, the Group will continue to strengthen its core business of TV programmes production and TV prime time advertising related services. The Group will increase its resources in servicing TV programme production and marketing to keep up its commitment to clients by providing better and more cost-effective services. The Group will continue to develop its good relationship with both local and international investors, and strengthen collaborations that will lead to more business opportunities and expand the revenue base with large media houses in the PRC.



Dr. Leung Anita Fung Yee Maria personally supervised the shooting of a commercial in Singapore for a client.

