



## CHAIRMAN'S STATEMENT

### FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of HK\$102.2 million as compared to HK\$107.3 million last year (restated). Profit attributable to equity holders of the Company were approximately HK\$13.5 million, as compared with a profit of approximately HK\$11.0 million for the last financial year (restated). During the year, the Group has disposed of all catering business, resulting operating loss from its catering business of approximately HK\$0.1 million, as compared to operating loss of approximately HK\$1.3 million and a gain on disposal of restaurant of HK\$0.5 million for previous year.

At the year end, the Group maintained a net cash position with cash and bank balances of approximately HK\$2.3 million (2005: HK\$4.1 million) and revolving bank loans of approximately HK\$14.6 million (2005: HK\$8.5 million). The Group had sufficient financial resources and will continue to finance its business development by revolving bank borrowings.

### DIVIDEND

The Directors have resolved to recommend to shareholders the payment of a final dividend of HK0.20 cent (2005: nil), which together with the interim dividend of HK0.20 cent (2005: nil) make a total dividend of HK0.40 cent for the year end of 31 March 2006. The total dividend of HK0.40 cent will amount to approximately HK\$3.4 million of the Company's profit for the year ended 31 March 2006 (2005: nil).

The proposed final dividend of HK0.20 cent per share, the payment of which is subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 23 August 2006, is to be payable on 6 September 2006 to shareholders whose names appear on the Register of Members of the Company on 23 August 2006.

### CLOSURE OF REGISTER OF MEMBER

The Register of Members of the Company will be closed from 18 to 23 August 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch Share Registrar, Secretaries Limited, at 26 Floor Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 17 August 2006.



## OPERATIONAL REVIEW

### Comics Publication and Related Business

The diversification of the Group's business into comics publication and related business has proved to be a successful move. Since the completion of the acquisition of 51% and the remaining 49% of Jade Dynasty Holdings Limited ("JDH") in April 2004 and October 2004 respectively, the full year contribution was fully reflected in the Group's financial statement. During the year, the Group published and sold 7 local Chinese comics on a weekly or bi-weekly basis and approximately 25 Japanese comics on a monthly basis. The Group's had also diversified its business from traditional comics books to animation-related products.

### Catering Business

Since the catering business continued to face keen competition from other market players, the Directors completed the closure of the remaining restaurant business in April 2005.

## NUMBERS AND REMUNERATION OF EMPLOYEES

As at 31 March 2006, the Group had 226 (2005: 163) employees. Employees' cost (including directors' other emoluments) amounted to approximately HK\$37.4 million for the year (2005: HK\$43.7 million). All permanent employees were under the remuneration policy of fixed monthly salary with discretionary bonus.

There has been no change to the share option scheme adopted by the Company on 7 October 2002. 31.8 million (2005: 61.8 million) outstanding share options have been granted to certain directors, employees, consultants, advisors, customers and business associates as at 31 March 2006.

## LIQUIDTY AND FINANCIAL RESOURCES

The Group's total assets as at 31 March 2006 were approximately HK\$235.2 million (2005: HK\$210.7 million) which were financed by the shareholders' fund and total liabilities of approximately HK\$188.1 million (2005: HK\$116.5 million) and HK\$47.1 million (2005: HK\$94.2 million) respectively.



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The Group's gearing ratio then computed as total borrowings over shareholders' fund was approximately 15.9% as at 31 March 2006 (31 March 2005: 63.2%).

The directors consider the Group will have sufficient working capital for its operations and financial resources for financing future investment opportunities in suitable business ventures.

The Group had limited exposure to fluctuations in exchange rates and its borrowings, bank balances and cash were mainly denominated in Hong Kong dollars.

### CAPITAL STRUCTURE

During the year, the Company issued approximately 100.3 million new shares of HK\$0.002 each at a price of HK\$0.5 per share by way of convertible notes conversion and approximately 30.0 million new shares of HK\$0.002 each at weighted average price by way of exercise share options respectively.

### CHARGES ON ASSETS

As at 31 March 2006, certain assets of the Group with an aggregate amount of HK\$25.9 million, including HK\$21.8 million of property at market value and HK\$4.1 million of pledge deposit, (2005: HK\$19.0 million) were pledged to secure general banking facilities granted to the Group.

### PROSPECTS

Striving to be "the leader of comics and animations industry in the Chinese community", the Group has achieved a breakthrough development in its animations-related business for the year under review. The Group entered into the Joint Investment Production Agreement of Animated TV Series ("Agreement") with China Central Television ("CCTV") on 9 March 2006 for the co-adaptation and co-production of an animated TV series titled "Shen Bing Kids". The animated TV series was adapted from the Group's home-grown comics titled "The Weapon". This breakthrough signified the Group has rolled out its plan to develop animations business and successfully penetrated into the enormous animations market in the PRC by positioning itself as the first overseas animations enterprise cooperating with the sole national TV station CCTV, utilizing the expertise and network of CCTV. The co-adapted and co-produced animated TV series was produced in accordance with "Comments on Developing Country's Film, Television and Animations Industry" set out by the State Administration of Radio Film and Television ("SARFT") in 2004.

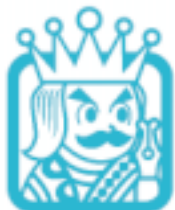


Pursuant to the Agreement, the Group is responsible for the pre-production and production of “Shen Bing Kids” while CCTV is in charge of the post-production. CCTV will be responsible for the sales and distribution of VCD/DVD products in the PRC market (excluding Hong Kong and Macau) while the Group will be responsible for the sales and distribution of animations-derived comics books, licensing of animations characters to toys, apparels, premiums, stationery, food and drink manufacturers, broadcasting of “Shen Bing Kids” in other TV stations in and outside the PRC as well as licensing of VCD/DVD products outside the PRC. Copyrights of the animated TV series and its derivative products will be jointly owned by the Group and CCTV.

The Group has proposed to CCTV to reschedule the broadcasting timetable for the first 26 episodes of “Shen Bing Kids” on CCTV 1 Channel to summer vacation in order to not only capture maximum viewing rates, but also to avoid clashing with the examination period of children in the PRC. Such broadcasting schedule is still subject to final regulatory procedures of SARFT and final broadcasting scheduling of CCTV. Besides, the second 26 episodes of “Shen Bing Kids” are expected to be broadcasted in the 4<sup>th</sup> quarter of 2006. The post-production of the second 26 episodes will take place in CCTV from July 2006. The Group endeavors to make “Shen Bing Kids” become an integral part of the daily lives of the children in the PRC.

“Shen Bing Kids” is the signature animations project enabling the Group to tap into the huge animations market in the PRC. We will keep our stakeholders informed once the broadcasting schedule is confirmed.

The Group believes “Shen Bing Kids” will on one hand generate substantial revenue and on another hand help diversifying the Group’s business from merely comics publications into animations production. To attain this, the Group in early 2006 authorized Shanghai People’s Fine Arts Publishing House, which is one of the leading fine arts state-owned publishers in the PRC with over 16,000 titles published and over 6 billion copies in issue since its establishment in 1952, to publish animations-derived comics books of “Shen Bing Kids”.



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In April 2006, the Group commissioned Promotional Partners Worldwide (“PPW”), which is one of the global promotional marketing service providers and licensing agents with headquarters in Hong Kong and has rich experience in cooperating with internationally renowned licensed intellectual properties owners such as Disney, Sanrio, Warner Bros and KFC, in granting product licensings as well as promotional licensings to renowned licensees of various derivative products of “Shen Bing Kids” including toys, apparels, premiums, stationery, food and drink manufacturers/distributors in the PRC.

Additionally, the Group has entered into two two-year contracts – “TV Program Agency and Distribution Contract” on 7 July 2006 with China International Television Corporation (“CITVC”), a wholly-owned subsidiary of CCTV which was founded in 1984 and is the global marketing agent for program copyrights owned by CCTV and the exclusive overseas copyright agent for the Chinese TV Program Export Association, authorizing it to deal with an exclusive TV broadcasting and distribution right of “Shen Bing Kids” to areas in and outside the PRC and production and distribution rights of VCD/DVD products to areas outside the PRC. The authorization aimed at well-preparing the Group to capture the trend of “Shen Bing Kids” upon the first launch of the animated TV series in CCTV 1 Channel. The overseas markets that CITVC will cover include Hong Kong, Macau, Taiwan, Japan, Korea, South-East Asia, United States, Canada, Australia, New Zealand, Europe, South America, Middle-East, Africa and West Asia. Also, the further cooperation with CITVC complements the marketing and promotion of the licensees of other derivative products in and outside the PRC and fosters a closer business relationship with CCTV.

I am glad to report that the business developments undertaken by Shanghai People's Fine Arts Publishing House, PPW and CITVC are in good progress with some early bird promotional licensing contracts to be concluded in the near future.

During the year of 2005/06, the Group has launched 5 new comics books including “Bai Fa Gui” adapted from the comics adaptation copyright of “The Bride with White Hair” authorized by Mandarin Films Ltd., “Magical Weapon – Fore Story 4”, movie-version comics named “Dragon Tiger Gate”, “The Deer and the Cauldron – Comics Version” adapted from Jin Yong's famous knight-errant fiction “The Deer and the Cauldron”. Additionally, the Group launched “Legend of “No-Man's-Land”-Comics Version”, which was adapted from Huang Yi's recent masterpiece that has never been adapted by other media.



In view of the favourable environment of the capital market in the first few months of 2006, the Group is now in a debt-free position by ways of convertible notes conversions, share options exercises plus placing of new shares to 2 institutional investors, raising a net proceed of HK\$28.5 million in a top-up placing in May 2006 principally for future animations development. At present, the Group's equity position has been enhanced by an aggregate of HK\$105.0 million by these 3 types of fund-raising avenues. Such position allows the Group to face upcoming challenges in sustaining its position as the largest and only listed comics publisher in the local comics market and tap into the huge animations market in the PRC by adaptation of our existing comics library.

The undersupply in domestic animations in the PRC will prevail in the next few years. More importantly, the State Council of the People's Republic of China just announced "Comments on Developing Country's Animations Industry" dated 25 April 2006 to further encourage the development of the animations industry which favours our moves to strive to be the leader in the Chinese community's comics and animations industry.

### APPRECIATION

I would like to express our sincere gratitude to all our stakeholders and business associates for their encouragement, support and assistance and our heartfelt thanks to all the employees of the Group who have worked hard to provide excellent services and contributions to the Group. I would also like to extend to my appreciation to all Board members for their invaluable and excellent contribution.

**Tong Kai Lap**

*Chairman*

Hong Kong, 18 July 2006