

Management Discussion and Analysis

During the year of 2006, turnover of the Group was approximately HK\$99.1 million as compared to approximately HK\$101.5 million in 2005, representing a decrease of approximately 2.3%. In 2006, the advertising revenue in real estate sector was seriously affected by the austerity measures implemented by the central government in China. Continued strong growth in revenue from Caijing Magazine was offset by advertising revenue drop in Real Estate Series, resulting a slight decrease in the Group's turnover.

In collaboration with some international renowned media groups, the Group had launched three magazine titles during the year, namely, Better Homes and Gardens, Sports Illustrated and CIO Insight. As a result of the initial stage of investment in developing these titles, the selling and distribution costs increased by approximately 100% and administration expenses increased by approximately 148%.

At the balance sheet date, the directors have considered the recoverable amount of the available-for-sales investments held by the Company and recognized a non-recurring impairment loss of approximately HK\$21.1 million for the year 2006.

The Company had issued a convertible bond ("CB") amounting to US\$10 million (equivalent to HK\$78 million) in May 2006. The Company recorded an interest expense of approximately HK\$5.0 million and the loss arising on changes of fair value of the components of the CB was approximately HK\$4.1 million for the year 2006.

As a result, the loss attributable to shareholders of the parent for the year of 2006, amounted to approximately HK\$29.0 million, when compared to a profit of approximately HK\$30.6 million in 2005.

To preserve financial resources for future expansion and operation of the Group, the Board does not recommend the payment of a dividend for the year 2006 (2005: HK\$0.004 per share).

Liquidity and Financial Resources

The Group's daily operating activities were financed by internal sources. As at 31 December 2006, the Group's equity was approximately HK\$242.5 million (2005: HK\$268.8 million). The Group had non-current convertible bond of approximately HK\$71 million as at 31 December 2006 (2005: nil). As at 31 December 2006, the Group's gearing ratio was 18.5% representing a percentage of non-current liability over total assets. As at 31 December 2005, the gearing ratio, which was computed by current liabilities over equity attributable to equity holders of the parent was 13.8%.

As at 31 December 2006, the Group had cash and time deposits amounted to approximately HK\$131.7 million (2005: HK\$172.8 million).

As at 31 December 2006, the Group had available-for-sale investments of value approximately HK\$13.0 million (2005: HK\$10.4 million).

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Charges on Assets

As at 31 December 2006, the Company had fixed deposit of approximately HK\$39.0 million charged to a bank for banking facilities granted to the Group's companies (2005: Nil).

Contingent Liabilities

The Group and the Company did not have any significant contingent liability as at 31 December 2006 (2005: Nil).

Issue of Convertible Bond

Pursuant to an agreement dated 20 April 2006, the Company issued a CB amounting to US\$10 million (equivalent to HK\$78 million) and a nil-paid warrant ("Nil-paid warrant") to an independent third party, Templeton Strategic Emerging Markets Fund II, LDC, represented by Templeton Asset Management Limited, on 19 May 2006. The CB carried coupon interest at the rate of 2% per annum on the outstanding principal amount of the CB and will be matured at the fifth year after the issuance of the CB. The Nil-paid warrant, which was granted for no consideration, carries the right to subscribe for up to 79,947,009 shares of the Company.

Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, United States Dollars or Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, apart from the convertible bond as referred above and the bank borrowing, the Group did not have any fixed interest rate borrowings and had not engaged in any financial instruments for hedging or speculative activities.

Employees

As at 31 December 2006, the Group had 262 (2005: 121) employees in Hong Kong and the People's Republic of China. Salaries, bonuses and benefits were decided in accordance with market conditions and performance of the respective employees.

Share Option Schemes

The Company's share option scheme was adopted on 26 August 2002. As at 31 December 2006, the number of share issuable under share options granted was 33,000,000 (2005: 35,900,000).