

Management Discussion and Analysis

Business review

For the year ended 31st December 2006, the Group is pleased to see the full year contributions from the media and advertising business subsequent to the acquisition of Anglo Alliance Co., Ltd. ("Anglo Alliance") completed in May 2005. During the year under review, the Group reported sales of approximately HK\$304,902,000 (2005: HK\$34,072,000) and a profit attributable to the equity holders of the Company of HK\$264,604,000 (2005: loss of HK\$22,187,000). It was the first profitable year of the Group after the Anglo Alliance acquisition. The Group's encouraging performance was braced mainly by the revenue derived from advertising business on the "Travel Channel" (the "Channel"), the satellite TV channel with nationwide coverage that focuses on travel, lifestyle and entertainment operated by the Group, positive returns from media investments, and a one-off fair value gain on the Group's interest in the ordinary shares of DVN (Holdings) Limited ("DVN") (Stock code: 500).

To better grasp the enormous business opportunities in China's advertising market, the Group has entered into an exclusive advertising agreement for all advertising resources of the Travel Channel in 2006 with full revenue entitlement. It has not only provided the Group with a steady income source, but also generated growth momentum for its China media and advertising business.

As a reward for shareholders' support and to focus attention on expanding its high-growth media and advertising business in China, the Group had distributed to shareholders all the DVN ordinary shares it held.

Below is a review of operations for each division of the Group:

Media and advertising business in China

During the year, the Group's media and advertising business in China became the major revenue contributor of the Group, reporting sales amounting to HK\$280,319,000, representing 92% of the Group's total sales. With the exclusive advertising agreement the Group signed with Hai Nan Haishi Travel Satellite TV Media Co., Ltd through its wholly owned subsidiary Beijing Hua Yi Qian Si Advertising Company Limited ("Qiansi") in the beginning of 2006, Qiansi has become the exclusive agent for all advertising resources of the Travel Channel for a six-year period up to 31st December 2011, with total revenue entitlement. The advertising revenue derived from the "Travel Channel" during the year, in particular, stood out, contributing HK\$217,725,000 or 71% of the Group's total sales.

In 2006, advertising expenditure in China continued to surge alongside the booming economy, translating into advertising business for the Group. According to CTR market research, the country's total advertising expenditure had risen by 18% to RMB287.5 billion in 2006 when compared with 2005, and the forecast growth rate for 2007 is about 20% and even higher for 2008. Among the different kinds of advertising, spending on TV advertising increased by 18% in 2006 and accounted for 76% of the country's total advertising expenses. TV is apparently the most popular platform for advertisers to publicize and promote their products and services. We see vast potentials in the country's advertising market for the Group.

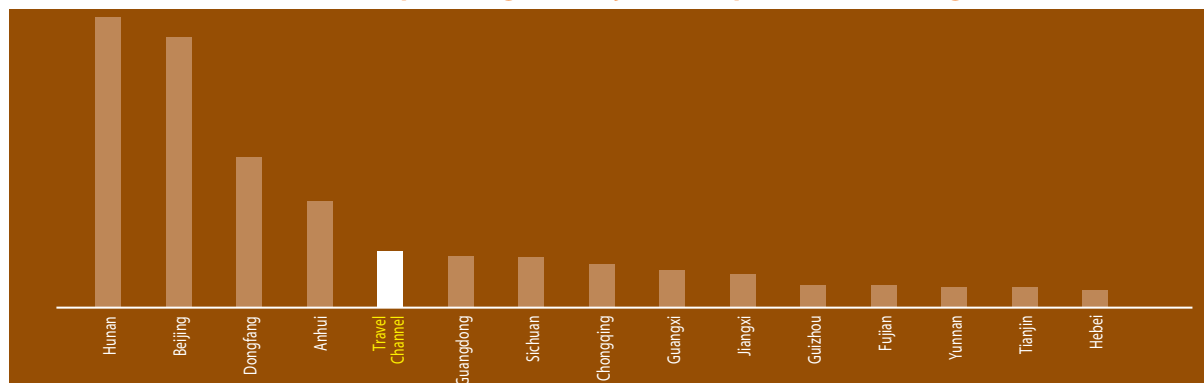
Management Discussion and Analysis

Television advertising — Travel Channel

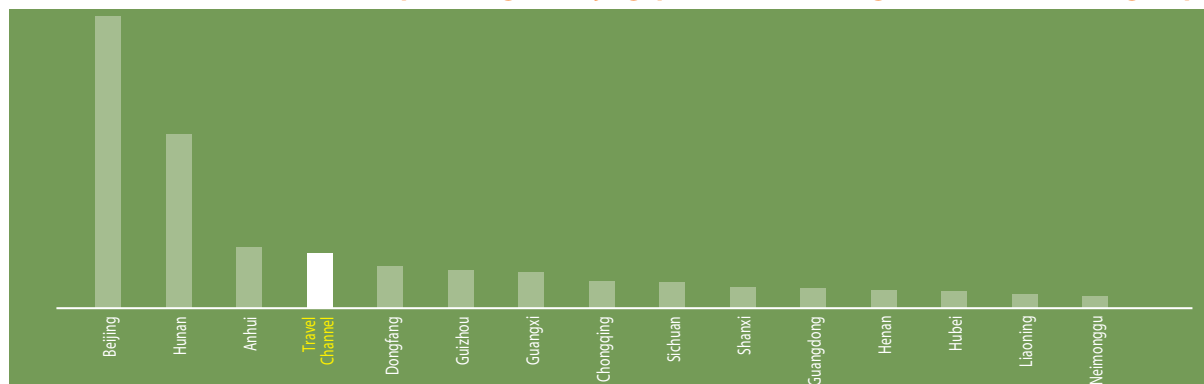
Travel Channel has a comprehensive network to capture the ever-growing demand for thematic programs of mainland viewers. Total available audience of the Channel jumped to 300 million in 2006 from 73 million in 2003, at an impressive average annual growth rate of 25.1%. According to CMMR research, the Channel was accessible in over 80% of all provincial capitals and municipalities as at October 2006.

The Group's effort in the past year to continuously improve programs on the Channel with fresh, comprehensive content on travel, fashion, lifestyle and entertainment has attracted viewers from the middle class with generally higher education, income level and consumption power — the key targeted customer base of the Channel. A CSM research found that the average viewership of the Channel rose by 28% in the first 3 quarters of 2006 comparing to last year, and the increase was even more significant at 52% during prime time. More specifically, viewership of the Channel among audience aged 25-44, with tertiary education and income of RMB2,000 or above grew impressively by 58% in the first 3 quarters of 2006 comparing to same period last year. In major cities including Beijing, Shanghai and Guangzhou, viewership of the Channel ranked top five in all provincial satellite TV channels during prime time among the audience with relatively higher income.

Provincial Satellite TV viewership ranking — 9 major cities, prime time and high-income audience group

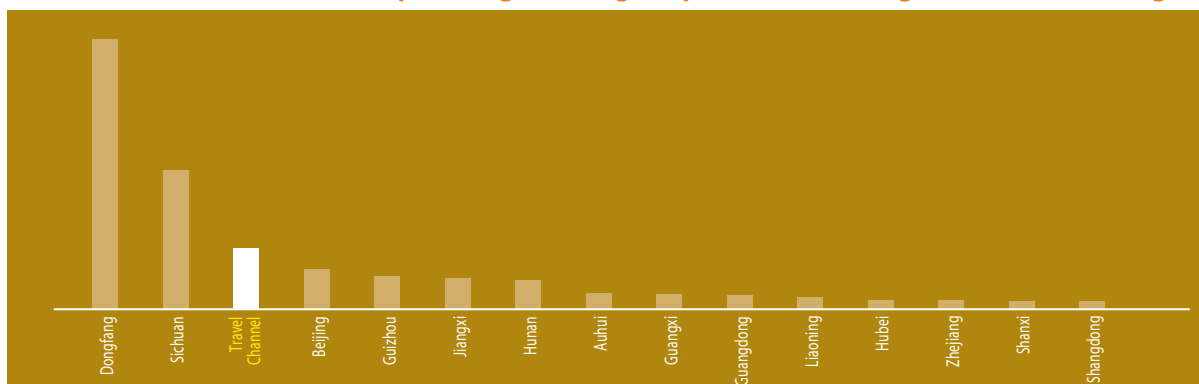


Provincial Satellite TV viewership ranking — Beijing, prime time and high-income audience group

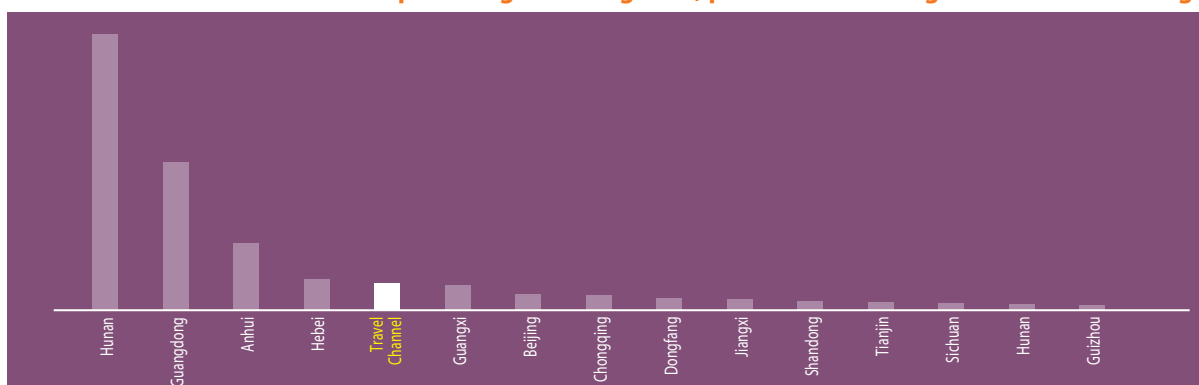


Management Discussion and Analysis

Provincial Satellite TV viewership ranking — Shanghai, prime time and high-income audience group



Provincial Satellite TV viewership ranking — Guangzhou, prime time and high-income audience group



Riding on the ever-expanding channel coverage and viewership, the Group pushed on with building the brand of the Channel. During the year, the Channel has acquired the right to broadcast a number of programs from Discovery Channel and ESPN, leading to an expanded viewer profile and more viewing choices on the Channel. Self-produced programs such as “Pretty Women” (美麗俏佳人) are well received by the audience during prime time. The “Travel Club” was jointly established with Beijing China Travel, and TV programs focusing on “Travel” were launched including the audience-led overseas travel program “Travel DIY”. Thanks to its unique positioning and distinctive programs, the Channel was named one of the “Seven most eye-catching satellite TV Channels in China” by Variety Magazine in June 2006.

The niche positioning of the Channel is a contributing factor to the boosted viewership, which in turn attracted large domestic and international advertising customers with well known brands in various sectors, such as automotive, mobile phones and telecom equipment, pharmaceutical products, consumer products, just to name a few. To expand its clientele, the Group has exerted extra effort in strengthening ties with international advertising agencies and established a special division to liaise with them.

Management Discussion and Analysis

Movie and TV drama

In the movie and TV drama area, the reported sales amounting to HK\$62,594,000, accounting for 21% to the Group's total sales. During the year, the Group has engaged in the production and distribution of "Jasmine Women" (茉莉花開) featuring world-renowned actress Ms. Zhang Ziyi (章子怡), and the licensing of other films and TV dramas in China and overseas market. Work on new movies and TV dramas are well on the way and are expected to be launched in 2007. They include those with strong cast such as 立春 directed by Gu Changwei (顧長衛) and a new TV drama 暴雨梨花 directed by Wong Jing (王晶) and casting Athena Chu (朱茵) and Kristy Yeung (楊恭如). The Group sees China's movie industry on a positive track with Chinese films beginning to gain international recognition. Going forward, the Group will continue to invest in popular TV programs and explore opportunities for investing in movies with award winning and international market potential.

Seeing prosperity for the media sector as well as the Chinese economy and with a solid foundation and growth platform, the Group believes it has the capability to grasp opportunities in the market to give its media and advertising business a brilliant future.

Digital broadcasting investment

As the Group's media business evolves, DVN's digital broadcasting business is increasingly deemed as a deviation from the Group's core media business. To reward shareholders for their support and to focus management attention in the high-growth media business in China in May 2006, the Board of Directors has made a strategic decision to distribute all DVN Shares it held to the then shareholders of the Company on a pro rata basis based on the number of Asian Union shares they held. The Group believes this move has not only consolidated its position in the China media industry and optimized its business model, but will also allow our Shareholders to realize more reasonable return from their investment.

Securities trading

The Hong Kong economy had substantial growth in year 2006. Leveraging the improved business environment and market sentiment, the Group traded securities in the capital market and made profit of approximately HK\$7,264,000 (2005: loss of HK\$48,000) during the year.

Communication and home audio division

Seeing the need to focus on the China media market, the management is reviewing the business operation of the Division with the aim of mapping out long-term strategy for it in alignment with the Group's new core business. There was insignificant contribution from this segment to the Group during the year.

Management Discussion and Analysis

Prospects

2007 and 2008 will be two important years for the Group's China media and advertising business. Riding on the momentum built after the first full year of operation of its media and advertising business, its comprehensive business structures, rich content portfolio and extensive business footprint, the Group is confident of capturing the tremendous advertising opportunities presented by impending international events including the 2008 Beijing Olympics and 2010 World Expo in Shanghai. According to PwC Global Entertainment and Media Outlook, the compound annual growth rate (CAGR) of television advertising spending in China between 2006 and 2010 is estimated at 16.7%, and the growth rate in 2008 alone is as high as 28%. From these statistics, it is apparent that advertising on TV in China has huge room for growth and the 2008 Olympics will see demand reaching its peak.

Other than the boost from international events, the booming Chinese economy has bred demand for consumer goods and financial products including cars, electronic products, credit cards and banking services of the middle class in the country. With advertising being an effective tool to reach consumers and the "Travel Channel" targeting particularly those in the middle class, the Group expects to derive consistently strong advertising income from the Channel in the coming years. Apart from directing effort on to growing the number of audience who are better educated and more apt to spend for the Travel Channel, the Group will also seek to widen its revenue base by boosting embedded advertisements, such as title and trailer sponsorships, into a new revenue stream.

It is also the Group's intention to actively explore new markets in the coming year with the Eastern China market as the key focus. To this end, the Group has established a joint venture with a leading advertising agent in Shanghai in order to facilitate exploitation of huge market potential. Furthermore, the Group is confident that the new quality movies and TV dramas to be launched in the coming year will be successful. Pursuits of partnership with famous directors and production houses and high profile artists will also continue to ensure reasonable returns from projects.

Last but not least, the Group is also actively exploring opportunities to expand into interactive television and value-added media entertainment services, such as interactive SMS, interactive games and shopping programs, etc. In March 2007, the Group has signed a cooperative agreement with Beijing United Interactive Television ("UiTV") for the launch of an interactive TV portal based on the content of Travel Channel. The website is scheduled to commence operation in the second quarter of 2007 and the two parties will equally split the revenues from advertising, e-commerce and publication rights made by the website. We believe that such initiatives, with Travel Channel's rich contents and the solid media and advertising business as leverage, will add to the growth momentum of our business in the years ahead.

Management Discussion and Analysis

Financial review

For the year ended 31st December 2006, the Group achieved sales of approximately HK\$304,902,000 (2005: HK\$34,072,000), an 8-time increase compared with last year. The significant increase mainly arose from the inclusion of the new Television Advertising segment which contributed sales of approximately HK\$217,725,000 during the year. Gross profit increase by 24 times to approximately HK\$112,646,000 (2005: HK\$4,541,000), mainly contributed by the two major segments of Television Advertising and Film and TV Drama.

The Group achieved an operating profit of approximately HK\$90,950,000 (2005: HK\$1,261,000), a 71-time increase compared with last year. The significant increase was mainly due to the good performance of both Television Advertising and Film and TV Drama segments, whose segment results were approximately HK\$44,623,000 and HK\$32,121,000 respectively. Profit attributable to equity holders of the Company for the current year was approximately HK\$264,604,000 (2005: loss of HK\$22,187,000), which include a one-off fair value gain on financial assets at fair value through profit or loss of approximately HK\$185,553,000 (2005: Nil). Excluding this one-off gain, pro forma profit attributable to equity holders of the Company for the current year would be HK\$79,051,000 (2005: loss of HK\$22,187,000).

Liquidity and financial resources

As at 31st December 2006, the Group held bank deposits of approximately HK\$30,447,000, an increase of 96% compared to 31st December 2005, mainly due to the strong performance of the Media and Advertising Business in China during the year. The current ratio decreased from 4.46 as at 31st December 2005 to 1.17 as at 31st December 2006. The gearing ratio, representing long term liabilities to net worth, increased from 0.18 at 31st December 2005 to 1.10 at 31st December 2006.

The Group mainly operates in China and is exposed of foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the HK dollars. All borrowings during the year were based on market interest rate. Other than the outstanding short-term borrowings of approximately HK\$22,776,000 (2005: HK\$14,758,000), the Group had no long-term bank loan outstanding as at 31st December 2006. As at 31st December 2006, the Group has pledged bank deposits of HK\$17,000,000 (2005: nil) against its short-term bank borrowing.

Significant investments held

In May 2005, the Group has acquired 100% equity interest in Anglo Alliance, the China media business of the Group. The total nominal consideration for this acquisition finalized at approximately HK\$524 million. Details of the acquisition are disclosed in the Company's circular dated 13th May 2005.

As at 31st December 2006, the Group also held an investment in preference shares which are exchangeable, after adjustment, to approximately 31,250,000 ordinary shares of DVN. The fair value of the investment was approximately HK\$97,895,000 as at 31st December 2006.

Capital structure

The Group has mainly relied on its internally generated cash flow and short-term borrowings to finance its operations. As at 31st December 2006, the Group has outstanding short-term borrowings of approximately HK\$22,776,000 (2005: HK\$14,758,000).

Management Discussion and Analysis

During the year, the Company has issued 2,122,136,612 new ordinary shares upon the conversion of a convertible note held by Mr. Ko Chun Shun, Johnson, the executive director of the Company.

During the year, the Company has also issued convertible notes which can be converted into 3,202,234,673 ordinary shares of the Company to Mr. Ko Chun Shun, Johnson, the executive director of the Company. As at 31st December 2006, none of the above convertible notes was converted into ordinary shares.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 31st December 2006, the Group employed a total of 11 employees in Hong Kong and a work force of about 111 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.