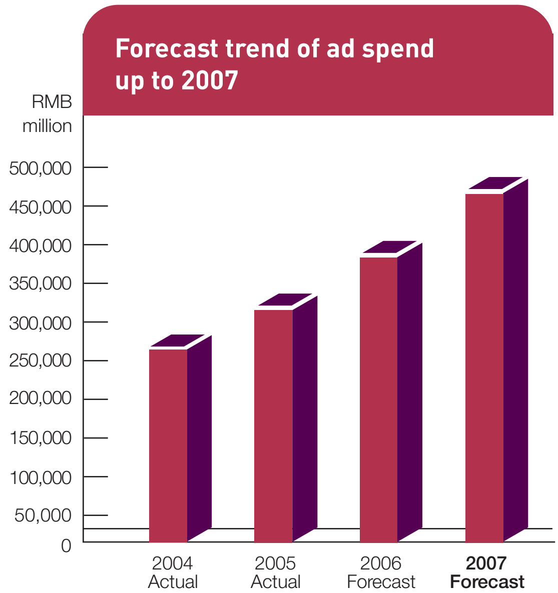
MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The economy of the People's Republic of China ("China" or "PRC") continues to undergo exponential growth. According to World Bank, PRC's GDP growth is expected to reach 9.5% this year compared with 9.9% in 2005 (Source: National Bureau of Statistics of China). Capitalising on upcoming international events such as the 2008 Olympics in Beijing, the 2010 Shanghai World Expo and the 2010 Asia Games in Guangzhou, many domestic and international companies plans to seize the opportunity to promote their brands, products or services by increasing their budgets for promotion and advertising. In addition, China's open-door strategy and the implementation of macroeconomic policies aimed at building harmonious families and well-off communities have allowed international enterprises to blossom and implement China-based production models. Such progressive strategies can lead to increased advertising spending on domestic media, a trend that should ensure our steady growth.



Source: AGB Nielsen Media Research

QJY Group was one of the listed companies worthy of CLSA's promotion at a forum in Shanghai this year.

Promoting our TV series at each session of China International Film & TV Programs Exhibition in Beijing attended by many of our overseas counter parts.

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According to AGB Nielsen Media Research, advertising expenditure in China during 2006 will reach RMB390.6 billion (2005: RMB315.7 billion), recording a growth rate of 25.5 % for the first half of 2006. Annual advertising expenditure on China's media has been growing at a steady rate of 20.7% over the last three years.

Television ("TV") has always been the dominant media in China. According to AGB Nielsen Media Research, 75% of three of the main streams advertising expenditure goes to TV media. In terms of audience rating and advertising expenditure, TV drama series always prevail. During the 2006 fiscal year, TV dramas have been the most profitable sector, taking in 43% of advertising expenditures.

With the proliferation of different forms of media, quality TV dramas have become a vital conduit for the advertising industry. It has been proven that provision of high quality TV drama series is the best and direct way to make profits and is an important tool to generate income through exchange of advertising rights during prime TV airtime.

In order to enhance the production of high quality domestic TV programs to meet the growing demand of elevating cultural elements in family entertainment nationwide, the central government decided to adopt an orderly progressive policy to open the media services market. Such policy is bound to benefit content providers of Hong Kong and Macau before other nations. Drama series produced by Hong Kong companies in conjunction with Mainland counterparts will be classified as domestic product permitted to be broadcasted at anytime including prime TV airtime.

BUSINESS OVERVIEW

The business performance of the Group continued to enjoy robust growth during 2006. For the three years since listing, the Group has recorded an annual net profit growth of over 26%. The Group has adhered to its defined dividend distribution policy and has distributed interim and final dividends for three consecutive years. For the year under review, the Group has adopted a scrip dividend for dividend distribution. Shareholders have the option of choosing cash dividend. The Group employed HK$82.8 million

To enhance a better understanding of the new condition and the prospects of China market, Dr. Anita Leung, our CEO actively promotes investor relations with overseas investors to derive a win-win situation for investors, the industry and the Group.

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raised from new share placements for the investment, production, buying and selling, distribution and planning TV dramas related business . During the year under review, the Group provided planning and production services for 216 episodes/hours of TV dramas, an increase from 126 episodes/hours during fiscal year 2005 and 58 episodes/hours in 2004. The Group has already established a strong market and brand presence in China with its growing track record in timely and efficient superior execution in the planning and production services for quality prime-time TV dramas.

During the year, the Chinese government has implemented new policies applicable to the TV industry that are extremely beneficial to Hong Kong companies engaged in investment, production, sales and purchase, and distribution of TV programmes in the domestic market. As a result of these policies, TV dramas jointly produced by Chinese and Hong Kong companies are considered domestically produced dramas and can be broadcasted at anytime, including prime time. Our Group has made the necessary preparations in order to operate effectively under the new policies. Since its listing, the Group has expanded its collaboration base from one Fujian TV station to TV stations and TV media groups in Beijing, Dalian, Guangdong, Harbin, Hubei, Jiangsu and Shanghai, which have signed or will sign agreement with us before/after October of 2006. Having formed a powerful network to invest, produce, sales and purchase, and distribute TV drama series, we believe that our market share of prime time TV dramas on the Mainland will expand and grow rapidly in the foreseeable future, with market demand for up to 5,000 episodes/hours per year.

The Group's focused strategy is to become both the leading TV content provider and a "multi-media supermarket" in China. In addition to provision of quality TV drama series and to secure more advertising opportunities and better terms on syndication program we also adopted an all-new approach – sourcing opportunities for cooperation with major Mainland TV stations to develop advertising operations. At the same time, during this fiscal year, the Group signed exclusive advertising agreements with three national newspapers, eleven national magazines and China Central

Hon. Sophie Leung presented the "Hong Kong Outstanding Enterprises Parade 2006" award from Economic Digest to our CEO, Dr. Anita Leung.

MANAGEMENT DISCUSSION AND ANALYSIS

Radio, including Children Magazine from China Children's Press and Publication Group, China Sports Daily, China Women's News and Chinese Red Cross Weekly. These accretive partnerships will translate to additional gains in our financial results for the fiscal year 2007. The advertising operations of these national non-TV media operations will complement our TV advertising related business to generate synergies and will provide our clients with many more opportunities for advertising placement.

During the current fiscal year, the Group acquired the permanent adaptation rights for the famous Wisely novel series, thereby expanding our TV drama series portfolio with one of China's most popular shows. Furthermore, the Group will continue its progressive policy of training and hiring talents on a contract basis for positions in TV production, distribution, advertising planning and selling, promotion and public relations. With these talents' rich market experience and sharp market sense, we hope to acquire a significant market share in this prosperous China media market very fastly.

OPERATING RESULTS

For the year ended 30 September 2006, the Group achieved a turnover of approximately HK$125.1 million (2005: HK$106.3 million), which represented an increase of 18%. Profit attributable to shareholders amounted to HK$83.6 million, recording a rise by 26% compared to HK$66.2 million in 2005.

TV program related income had an increase by 32% to HK$74.0 million (2005: HK$56.0 million). The marketing related income experienced a significant growth by 117% to HK$35.9 million (2005: HK$16.5 million). The impressive growth was attributable to the increase in the number of episodes/hours of TV drama series completed from 126 to 216 in the year. Revenue from the two categories contributed to approximately 88% of total turnover in the year. The Group reported a gross profit of HK$101.9 million (2005: HK$88.0 million) and a gross profit margin of 81% (2005: 83%). The Group continued to exercise strict costs control and improve operating efficiency. The general administrative expenses remained

Dr. Anita Leung, CEO, Ms. Harris Chan, CFO and Mr. Aaron Lai, Financial Controller, at the investor conference organised by J.P. Morgan this year in Beijing.

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stable at HK$22.5 million (2005: HK$22.1 million). Finance costs went up from HK$3.2 million to HK$5.1 million because of the increase in interest rates and the loan utilization to support the group expansion.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent funding and treasury policy with regards to its overall business operations. At 30 September 2006, the Group's cash level stood at HK$190.0 million (2005: HK$157.4 million). The balances are in Hong Kong Dollar and Renminbi.

As at 30 September 2006, the total borrowings were approximately HK$114.7 million (2005: HK$61.3 million), comprising secured bank loans of approximately HK$108.4 million (2005: HK$54.8 million) and mortgage bank loans of HK$6.3 million (2005: HK$6.5 million). Except the mortgage loan, all the bank borrowings are short term revolving loan repayable within one year. All the Group's borrowings are at floating interest rates and denominated in Hong Kong Dollar and Renminbi. The unutilized bank loan facilities amounted to HK$73.2 million (2005: HK$70.4 million).

The Group's gearing ratio, which was calculated using of the Group's total liabilities over total assets, was 24% as at 30 September 2006 (2005: 18%).

Balance of accounts receivable, including long term receivables as at year end, was HK$87.5 million (2005: HK$67.0 million), an increase of 31% over last year. Debtors' turnover days, calculated as average accounts receivable (including long term receivables) divided by turnover for the year multiplied by the number of days in the year, is 194 days (2005: 159 days).

Staffs of our branch offices participating each session of China International Film & TV Programs Exhibition in Beijing to cultivate a better working relationship.

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MORTGAGES AND CHARGES

Bank deposits of HK$45.3 million (2005: HK$40.3 million) were pledged to banks to secure general banking facilities granted to the Group.

Certain land and buildings in the PRC with carrying value of HK$9.2 million (2005: HK$9.4 million) was secured for mortgage bank loans of HK$6.3 million (2005: HK$6.5 million).

USE OF PROCEEDS FROM PLACEMENT OF SHARES

During the year, the Company raised net proceeds (after expenses) of approximately HK$82.8 million by placing 47,000,000 shares and subsequent issuances of 37,600,000 new shares. The proceeds were used to finance the production of TV drama series in the PRC.

EXPOSURE TO FOREIGN EXCHANGE RISK

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated either in Hong Kong Dollar or Renminbi. The Group did not enter any financial derivative instruments to hedge against the foreign exchange currency exposures. The Renminbi has been experiencing appreciation since July 2005. The reform of Renminbi exchange rate regime benefited the Group as a whole given the revenue from the business operations of the Group is mainly denominated in Renminbi.

EMPLOYEES

As at 30 September 2006, the Group had a total of 29 (2005: 25) employees and total staff costs amounted to 3.8% of total turnover (2005:

Representatives of each of the top 8 TV stations/media services in Mainland China at the press conference and the cocktail reception to celebrate the long term collaboration agreements for producing, purchasing and selling TV series.

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4.4%). Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonus payments are discretionary and depend on both the Group's performance and the performance of the individual employee. Benefits include retirement schemes, medical and dental care insurance and share option scheme.

BUSINESS PROSPECTS

With the continued development of China's economy, emphasis of macroeconomic policies to build harmonious families and prosperous communities, and the rapid development of the country's cultural industry, the Group believes that high quality of TV programs in China will be in great demand. The Chinese government has decided that China's film and TV industry would be among the first fields to be open to Hong Kong and Macau. This policy has undoubtedly encouraged Hong Kong enterprises to invest in PRC TV programs. The attractive investment policy and the Group's own special market competitive edge have put us in a position to become the leading provider of TV program related services in China. From next year, the Group will work towards its goal to increasing its market share of annual TV programming from around 2 percent to 15-20 percent beginning three years afterwards. To achieve this, we have to recruit and develop talent as well as to build up a comprehensive database for TV drama production by buying high quality plays and novels and training and recruiting top playwrights.

In addition to quantity, the quality of the TV dramas is a crucial element. At present, the Group has yet to tap the full potential of the overseas markets for its TV drama series business. The Group will focus mainly on the PRC market, however, we will also consider overseas markets.

It is believed that the process of an application for a licence to carry out advertisement business will be completed shortly, that is to say, with the support of our long term partner, Tianjin QJY Advertising Company Ltd., the

MANAGEMENT DISCUSSION AND ANALYSIS

Group's advertisement business will enter into a new phase. Advertising expenditures incurred by China's television media will reach about RMB300 billion in 2006. The Group will not be content merely with the development of syndication programming. Instead, we will develop other advertising opportunities with the local TV stations across China to complement the interests of the Group's non-television media. The ultimate goal of the "QJY multi-media supermarket" is to provide better service for our advertising clients.

Nowadays, looking at the domestic drama series, there is a noticeable shortage of themes reflecting matters relating to current social events. The Group has acquired the exclusive adaptation rights to the works of Wisely science fiction and novels written by Dr. Leung Fung Yee. As urged by some name brand sponsors, some drama series based on the works of Wisely and Dr. Leung Fung Yee are expected to be produced next year. It is anticipated that a new movement of name brand sponsorship of drama series will begin.

In order to reflect global trends and meet market demand, the Group is set to make further moves to organize national and international large-scale public relation and promotional activities by strengthening our cooperation with our strategic partners.

The Group is now known as one of the foremost supplier of TV dramas in China. The upcoming new radio and television regulations will give Hong Kong enterprises operating in China a definite advantage and the Group will attract more international attention as Mainland China media market are open to overseas investments. The introduction of PRC TV media to the rest of the world will create value for the Group's stakeholders and benefits for the PRC TV industry.

Directors Honourable Dr. Wong Yu Hong, Philip, Dr. Anita Leung, Mr. Tsiang Hoi Fong, Mr. Lam Haw Shun, Dennis, Mr. Hui Koon Man, Michael and Mr. Lee Woo Sing together attended the presentation cocktail reception of the "Hong Kong Outstanding Enterprises Parade 2006" during which QJY was awarded the title of "Hong Kong Outstanding Enterprises".