

BUSINESS

OVERVIEW

The Group is principally engaged in the media advertising business, including recruitment, inflight magazine and statutory announcement, and printing business. The table below illustrates the breakdown of the Group's turnover by business segment during the Track Record Period:

	For the year ended 31st December,		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Advertising income	103,995	160,570	192,622
Printing income	–	66,533	105,711
	103,995	227,103	298,333
Total	103,995	227,103	298,333

Advertising

(i) Recruitment

The Group is a recruitment advertising operator in Hong Kong providing both print and online advertising to job seekers and recruitment advertisers.

Since July 1992, the Group commenced distributing free publication dedicated to recruitment advertising in Hong Kong on a regular basis. The Group expanded its coverage to Shanghai by launching a recruitment advertising publication through a local publisher in 2005. Two recruitment advertising publications under the names "Recruit" and, through a local publisher, "1010job精英招聘" are distributed by the Group in Hong Kong and Shanghai respectively, targeting white-collar job seekers.

The Group also operates a website, recruitonline.com, an English-Chinese bilingual website providing a personalised solution to job seekers and recruitment advertisers located in Hong Kong. The Group has extended its presence to the PRC market through a website, 1010job.com, which presently offers recruitment and job information tailored for job seekers in the PRC market.

The recruitment advertising business contributed approximately HK\$58.2 million, HK\$67.8 million and HK\$73.3 million to the Group's turnover for each of the three years ended 31st December, 2006, respectively.

In respect of its business relating to recruitment advertising in Hong Kong, the Group continues to consolidate its leadership position as a print advertisement provider in the recruitment market. The Group will also continue to enhance its recruitonline.com website. On the other hand, in respect of its business relating to recruitment advertising in the PRC, the Group continues to strengthen its sales force in the recruitment advertisement business in Shanghai and to provide more proprietary products on its 1010job.com website for job seekers in Shanghai.

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(ii) Inflight magazine

The Group is the exclusive advertising market consultant and production services provider for the major inflight magazines and newspapers of two PRC airlines, CEA and CSA. As their advertising market consultant and production services provider, the Group is primarily responsible for the production, marketing and promotion of the magazines and newspapers as well as facilitating the sale of advertising spaces.

The Group currently acts for five monthly and weekly inflight magazines and newspapers of the two airlines. These publications are mainly distributed on board the aircraft of the airlines and in major airports throughout the PRC.

The Group's turnover from its inflight magazine business for each of the three years ended 31st December, 2006 were approximately HK\$32.3 million, HK\$80.0 million and HK\$104.9 million, respectively.

The Group will continue to explore new business for more inflight magazine titles that will enhance its competitive strengths in the inflight magazine market.

(iii) Statutory announcement

The Group has been the exclusive sales agent for legal and public notices of China Daily since 2003. The legal and public notices mainly include announcements issued by companies listed on the Main Board and notices of application for registration and renewal of liquor licences. The Group provides the announcement advertising spaces in China Daily to the clients through its own sales network. In addition to sales of advertising space, the Group also coordinates with advertisers, other intermediaries and China Daily for publication of announcements and notices.

The Group's turnover from its statutory announcement business were approximately HK\$13.5 million, HK\$12.8 million and HK\$14.4 million for each of three years ended 31st December, 2006, respectively, representing approximately 13.0%, 5.6% and 4.8% of the Group's turnover for the respective years.

The Stock Exchange is phasing out the Main Board requirement for companies to publish announcements in newspapers. Accordingly, the Directors are of the view that the Group's business of statutory announcement will have limited development in the future. The operating profit margins of the statutory announcement business were approximately 29.9%, 34.8% and 29.4% for each of the three years ended 31st December, 2006, respectively. The operating profit of the statutory announcement represent 11.9%, 11.5% and 6.3% of that of the Group for each of the three years ended 31st December, 2006, respectively. As the profit contributions from the sales of advertising spaces in China Daily have been declining and becoming insignificant in terms of above percentages in the Track Record Period, the Directors believe that loss of the statutory announcement business will not have any significant adverse effect on the Group's future profitability.

Printing

The Group established its printing division in early 2005 to carry out high-quality printing including photograph books, cookbooks, art books, text books and children's books for overseas publishers.

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The Group is utilising the Production Facility in Boluo County, Huizhou City, Guangdong Province, the PRC. Manufacturing of printed products, including the processes of blue print, pre-press, press, post press, hand work and quality assurance, are carried out in the Production Facility by way of processing arrangement. Furthermore, certain parts of the production processes or some sales orders may be placed with sub-contractors during peak seasons. While the production procedures are performed in the PRC, the Group's printing division maintains its sales office in Hong Kong, where an experienced sales team is situated to serve overseas customers.

The Group aims at achieving a steady growth in revenue by expanding client base in terms of geographic coverage. The Group will continue to work with global publishing houses by offering flexible and competitive services.

COMPETITIVE STRENGTHS

Enabling print and online operation

The Group has gained extensive knowledge of the recruitment advertising industry since the launch of its first recruitment advertising publication and recruitment website in 1992 and 1996 respectively. With more than a decade of operations in the recruitment advertising industry, the Group is able to develop its business based on its job seeker and recruitment advertiser databases and has gained thorough understanding of the characteristics of the recruitment advertising market. As at 31st December, 2006, there were 500,000 job seekers and 227,000 recruitment advertisers in the Group's databases.

Comprehensive online recruitment functions

The Group's recruitment websites allow job seekers to conduct basic searches and advanced searches with different search criteria to tailor for their needs. Job seekers will be alerted by e-mail messages when appropriate job openings are available based on the job seekers' search criteria under the "automated job alert function". The Group's websites also enable job seekers to make online applications by submitting resumes to the selected recruitment advertisers.

Successful track record in brand building

The Group has established strong market recognition among its target recruitment advertisers and job seekers. The 10-year exposure in the MTR network helped to fortify the brandname "Recruit" in Hong Kong. Recruit magazine was rated the most recognised recruitment advertising publication in Hong Kong in a survey performed by an independent marketing research house in May 2005.

Market leadership in inflight magazine business in the PRC

The Group is the exclusive advertising market consultancy and production services provider for CEA and CSA, two of the three leading PRC airlines. Compared to other domestic PRC carriers such as Shanghai Airlines, Xiamen Airlines and Hainan Airlines,

the two airlines have higher passenger volumes and more extensive long-haul networks. In other words, based on the higher passenger volumes, the viewership of the inflight magazines and newspapers of CEA and CSA is expected to be higher than other domestic PRC carriers.

Short lead time in printing production

With seasoned management, the Group's printing division is capable of delivering customer's orders within a short lead time. For example, the Group has the capacity to finish orders of paperback books in two weeks time and hardcover books in three weeks time.

HISTORY AND DEVELOPMENT

The history of the Group dates back to April 1992 when Hong Kong Transit Publishing, being the operating company of the recruitment advertising business of the Group at that time, entered into an agreement with the operator of the MTR to distribute Recruit magazine at all MTR stations in Hong Kong.

The first issue of Recruit magazine was published in July 1992. Recruit magazine was distributed once every week at all MTR stations. In the same year, the Group started to provide various recruitment related services including the establishment of a database of recruitment advertisers for Recruit magazine and the provision of a free job-matching service with the objective to assist the matching of job seekers to posts advertised. In order to meet the demand from job seekers, commencing from January 1994, the Group has increased the publishing of Recruit magazine to twice a week. At the same time, the format of Recruit magazine was enhanced from a loose-leaf newspaper to a bound publication.

In November 1996, in anticipation of the increasing use of the Internet as a medium for recruitment advertising, the Group launched the online version of Recruit magazine, i.e. recruitonline.com, a website containing a database of all job vacancies printed in Recruit magazine. [Recruitonline.com](http://recruitonline.com) allows job seekers to conduct job searches on job vacancies based on their own criteria and preferences.

In early 1999, recognising the advancement of the Internet technology and the market trend towards using the Internet for recruitment advertising purpose, the Group began to develop an Internet solution for job seekers and recruitment advertisers. In February 2000, the Group launched the website www.PandaPlanet.com.

In March 2000, the Company was incorporated in the Cayman Islands as the holding company of the Group. The Shares were listed on GEM on 20th July, 2000.

Following the expiry of its distribution rights with the MTR Corporation in July 2002, the Group ceased to distribute Recruit magazine inside the MTR network and instead started to distribute Recruit magazine for free at newstands, major KCR stations, entrances of major MTR stations, ferry terminals as well as selected convenience stores throughout Hong Kong.

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In October 2002, City Apex and parties acting in concert with it acquired an approximately 88.5% stake in the Company from JC Decaux Pearl & Dean Limited and Publicitas Asia Holdings Limited, the then Shareholders and through a mandatory unconditional cash offer. In connection with such acquisition, parties acting or deemed to be acting in concert with City Apex were GEC, ER2 and its shareholders, Dr. Lo, Salespost Limited, Mr. Lo Hong Sui, Vincent and his family members, Mr. Lee, CFIC and its subsidiary. The total consideration for the acquisition was approximately HK\$10.8 million. The price was determined taking into consideration, among other things, the then operating environment and business prospects of the Company and the then global and local economic and business conditions in general. As a result of the acquisition and the cash offer, there were changes in the Directors, including the appointment of the existing Chairman and executive Director, Mr. Lau, to the Board. Details of City Apex are set out in the section headed “Relationship with controlling shareholders and the Directors” in this document. In early 2003, the Company changed its name from Panda-Recruit Limited to Recruit Holdings Limited and redomiciled from the Cayman Islands to Bermuda.

In January 2003, the Group was granted the exclusive right to sell legal and public notice advertising space for one Chinese newspaper, Ta Kung Pao (大公報), and one English newspaper, China Daily, in Hong Kong. Owing to keen competition in the Chinese language newspaper market, the arrangement with Ta Kung Pao was discontinued in 2003. The exclusive business operations with China Daily as its exclusive sales agent has been carried on up to date.

The Group was granted the exclusive right by CEA to act as its advertising market consultant and production services provider for an inflight magazine in February 2004. In October 2004, the Group was granted the non-exclusive right to act as advertising market consultant and production services provider for an inflight magazine for CSA. In July 2005, the Group secured a multi-year agreement with CSA, which appointed the Group to act as the exclusive advertising market consultant and production services provider for CSA’s inflight magazines. Apart from CEA and CSA, the Group currently also represents Philippine Airlines as its sales agent to sell advertising space in Hong Kong for its inflight magazine “Mabuhay”.

To capitalise on the growing demand for recruitment advertising service in the PRC, the Group set up Shanghai Haifan in Shanghai, the PRC in early 2005 through a series of contractual agreements, which enabled the Group to enjoy economic benefits of Shanghai Haifan. Shanghai Haifan launched its recruitment advertising services by publishing 1010job 精英招聘 through a local publisher in Shanghai, which was designed for PRC job seekers. It also commissioned an international advertising agency to re-package and build the brandname “1010job”.

In January 2005, the Group entered into a series of contractual agreements with Shanghai Decai, which enabled the Group to enjoy economic benefits in Shanghai Decai. Shanghai Decai is a domestic company established in Shanghai, the PRC. Shanghai Decai is principally engaged in provision of recruitment services in the PRC.

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The Group further diversified its activities into the printing business in 2005 when it set up 1010 Group. 1010 Group was set up in early 2005 and the equity interest in 1010 Group was then owned as to 79% by the Group, 3% by a director of 1010 Group, 3% by an employee of 1010 Printing and 15% by GRS. The Group's equity interest in 1010 Group decreased from 79% to 70% in September 2005 following the disposal of a 9% equity interest to two employees of 1010 Printing at the consideration of HK\$900, which was based on the book value of the relevant equity interest. 1010 Printing provides high quality printing services to publishers in Australia, the UK, the US and other regions. The printing division has grown quickly to become one of the major revenue contributors of the Group. During the years 2005 and 2006, the Group acquired certain machineries for its printing production which enabled the Group to reinforce its computer-to-plate and automated press systems and improve the response to its clients' demands in terms of time and quality. In October 2006, the Group acquired an additional 3% equity interest in 1010 Group from a director of 1010 Group at the consideration of HK\$300, which was based on the book value of the relevant equity interest, it thereby increased its equity interest in 1010 Group from 70% to 73%.

In April 2005, the Group established RHRG. Pursuant to an agreement dated 14th April, 2005, an Independent Third Party acquired a 5% interest in RHRG for a cash consideration of HK\$6 million. The consideration was determined after arm's length negotiations between the parties by reference to the consolidated net asset value of RHRG, and the financial position and earnings prospects of the RHRG Group. The turnover of the RHRG Group was HK\$45.4 million and HK\$73.4 million for each of the two years ended 31st December, 2006 respectively. The investment provided additional capital for the Group's recruitment advertising business in the PRC. The Independent Third Party is a private investment holding company. At the date of acquisition of the interest in RHRG by the Independent Third Party, the RHRG Group was engaged in the provision of recruitment advertising services and publishing business in Hong Kong and the PRC.

In early 2006 the Group set up its financial investment arm focusing on listed stocks traded in Hong Kong to provide the Group with a more diversified portfolio of businesses and enhance the return on surplus cash.

In September 2006, the Group entered into a series of contractual agreements with Shanghai Lieying, which enabled the Group to enjoy economic benefits in Shanghai Lieying. Shanghai Lieying is a domestic company established in Shanghai, the PRC. Shanghai Lieying has been relatively inactive compared to Shanghai Haifan and Shanghai Decai since its establishment in September 2006.

In October 2006, Shanghai Decai launched a career Internet portal providing a range of career and job related information and company reviews with the brand name of 1010job精英招聘.

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In December 2006, the Company increased its equity interest in PPGI from 20% to 50% by acquiring of further 30% from two Independent Third Party vendors. The Group also assumed the benefits associated with a shareholders' loan of approximately HK\$16.6 million in PPGI. The consideration for the acquisition was HK\$18.0 million in cash, which was determined after arm's length negotiations between the parties by reference to the debt owed by PPGI to the vendors and the financial position of PPGL. The sole asset of PPGI is a 50% interest in PPGL, a contract printing company that provides printing services to various publications, including Recruit magazine. With the Group's expertise and business connections in the printing industry, the Directors are of the view that additional investment in PPGI can provide steady income to the Group, enhance the return on surplus funds of the Group, and provide synergies for further business development of the Group.

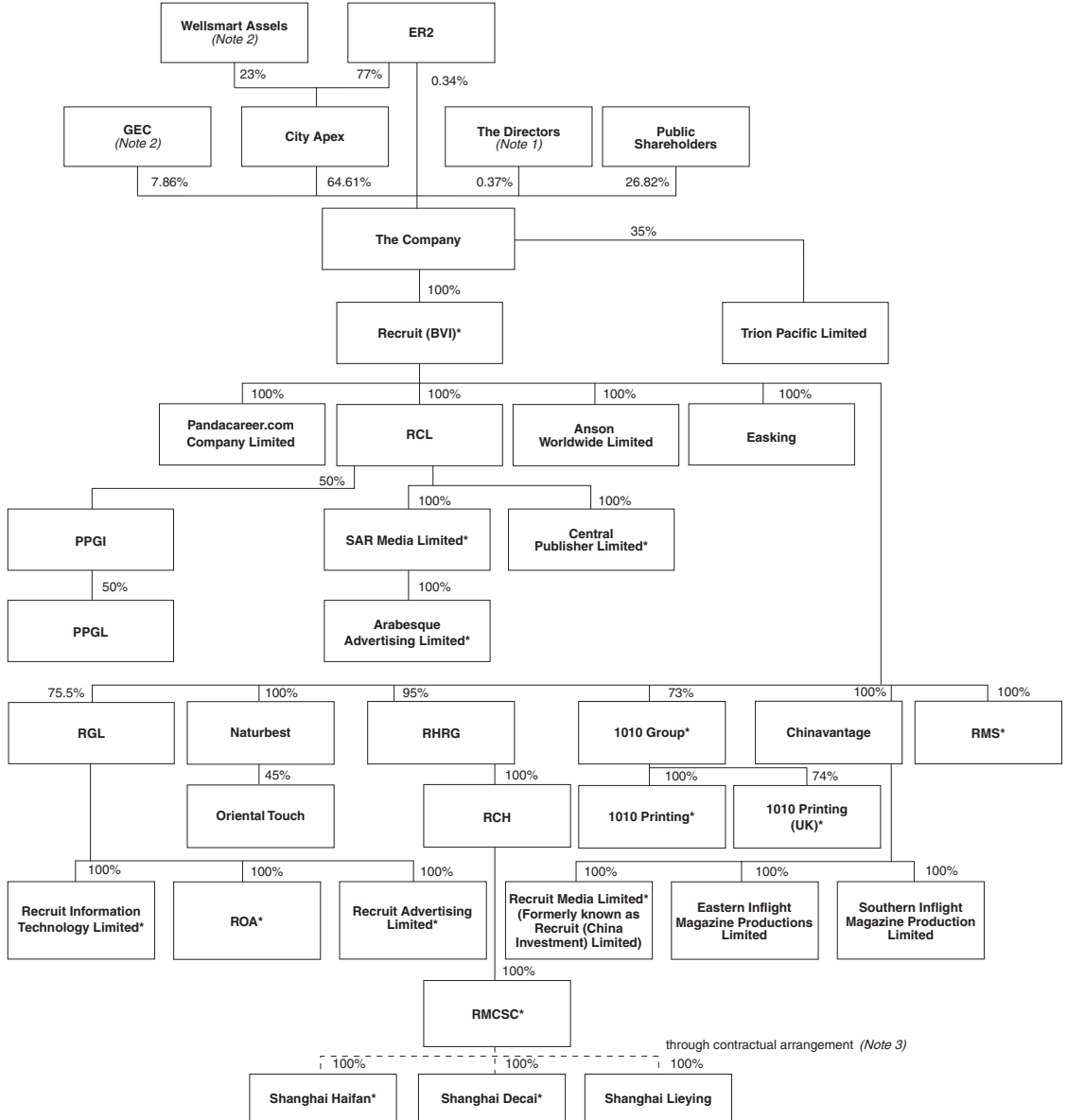
In January 2007 the Group launched a sector-focused job website, www.merchandiserjobs.com.hk to provide an Internet portal for jobseekers in the merchandising sector. The Group plans to launch other sector focus websites in the future.

In February 2007, Jobstreet, which is principally engaged in the advertising media business and is listed on the Mesdaq Market of Bursa Malaysia Securities Berhad, acquired 20% equity interest in RGL, a non-wholly owned subsidiary of the Group. The Group was as a result able to gain access to Jobstreet's recruitment technology and business model. The consideration for the acquisition by Jobstreet was HK\$15.0 million in cash, which was determined after arm's length negotiations between the parties by reference to the net asset value of the RGL Group, the financial position and earning prospects of the RGL Group, Jobstreet's status as a significant player in the online recruitment advertising business in the Asia Pacific region and the chance to leverage Jobstreet's existing technology by the Group. The acquisition by Jobstreet was completed on 15th February, 2007.

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GROUP STRUCTURE

The following chart illustrates the shareholding structures of the Group as at the Latest Practicable Date (all percentages shown are approximate figures):



* Principal operating subsidiaries

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Notes:

1. Mr. Lee and his associates hold 150,500 Shares, which represent 0.05% interests in the Company. Of the 150,500 Shares, 50,000 Shares are beneficially owned by the wife of Mr. Lee, who is deemed to be interested in the said Shares under Part XV of the SFO. Mr. Peter Stavros Patapios Christofis holds 670,500 Shares which represent a 0.24% interest in the Company. Mr. Cheng Ping Kuen, Franco holds 204,000 Shares which represent a 0.07% interest in the Company. The discrepancy of 0.01% interest is due to the rounding down of the calculations.
2. Both Wellsmart Assets and GEC are subsidiaries of Great Eagle.
3. The Group has entered into a series of contractual agreements with the PRC Entities and their respective shareholders which enables the Group to enjoy the economic benefits of the PRC Entities. Further details of the contractual agreements are set out in the paragraph headed "Contractual Arrangements" below.

The following table summarises the principal activity, the date and place of incorporation or establishment of each of the companies comprising the Group and the associated companies of the Group:

Name of company	Principal business activities	Date of incorporation or establishment	Place of incorporation or establishment
Recruit Holdings Limited	Investment holding and provision of corporate management service	13th March, 2000	Cayman Islands (continued in Bermuda) (Note 1)

Subsidiaries:

1010 Group Limited	Investment holding	10th January, 2005	Hong Kong
1010 Printing (UK) Limited	Printing agency	2nd January, 2007	United Kingdom
1010 Printing International Limited 滙星印刷國際有限公司	Printing	10th January, 2005	Hong Kong
Anson Worldwide Limited	Inactive	8th November, 2002	BVI
Central Publisher Limited 卓越出版社有限公司	Publishing and investment trading	26th September, 1997	Hong Kong
Chinavantage Group Limited 先傳媒集團有限公司	Investment holding	5th July, 2006	BVI
Easking Limited 宜勁有限公司	Investment holding	15th September, 2004	Hong Kong
Eastern Inflight Magazine Productions Limited 中國香港航機雜誌製作有限公司	Investment holding	12th February, 2004	BVI
Naturbest Investments Limited	Investment holding	15th August, 2006	BVI

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Name of company	Principal business activities	Date of incorporation or establishment	Place of incorporation or establishment
Pandacareer.com Company Limited 才庫媒體集團有限公司	Inactive	14th February, 2001	Hong Kong
Recruit Advertising Limited 才庫廣告有限公司	Provision of advertising services	23rd April, 1991	Hong Kong
Recruit (BVI) Limited	Investment holding	15th March, 2000	BVI
Recruit (China) Holdings Limited 才庫(中國)控股有限公司	Investment holding	3rd November, 2004	BVI
Recruit Company Limited 才庫媒體有限公司	Investment holding	18th January, 1994	Hong Kong
Recruit Group Limited	Investment holding	8th January, 2007	BVI
Recruit Human Resources Group Limited 才庫招聘資源有限公司	Investment holding	7th April, 2005	BVI
Recruit Information Technology Limited 才庫資訊科技有限公司	Provision of website development and information technology services	7th November, 2003	Hong Kong
Recruit Management Services Limited 才庫管理有限公司	Provision of corporate management service	13th April, 2006	Hong Kong
Recruit Media Limited	Provision of advertising services	26th July, 2004	Hong Kong
Recruit Online Advertising Limited 才庫網絡廣告有限公司	Publishing and provision of advertising services	30th April, 1999	Hong Kong
SAR Media Limited 文化特區出版有限公司	Provision of advertising services	4th June, 1997	Hong Kong
Southern Inflight Magazine Production Limited 東南航機雜誌製作有限公司	Investment holding	19th April, 2005	Anguilla
廣州海螢廣告有限公司 (Arabesque Advertising Limited) (Note 2)	Provision of advertising services	1st February, 2005	PRC

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Name of company	Principal business activities	Date of incorporation or establishment	Place of incorporation or establishment
才庫企業管理顧問(上海)有限公司 (Recruit Management Consulting (Shanghai) Company Limited) (Note 2)	Investment holding and provision of corporate management service	5th January, 2005	PRC
上海德才人力資源有限公司 (Shanghai Decai Human Resources Company Limited) (Notes 2, 3)	Provision of staff selection services	14th July, 2003	PRC
上海海帆廣告有限公司 (Shanghai Haifan Advertising Company Limited) (Notes 2, 3)	Provision of advertising services	23rd November, 2004	PRC
上海獵英人才服務有限公司 (Shanghai Lieying Human Resources Consulting Services Company Limited) (Notes 2, 3)	Provision of recruitment agency services and related services	27th September, 2006	PRC

Associates:

Oriental Touch China Limited	Stock photo sales	22nd November, 2005	BVI
PPG Investments Limited	Investment holding	9th March, 2000	BVI
Trion Pacific Limited 三慧顧問有限公司	Inactive	23rd May, 2003	Hong Kong

Notes:

1. Recruit Holdings Limited was incorporated in the Cayman Islands on 13th March, 2000 and re-domiciled to Bermuda on 29th January, 2003.
2. The English translation of Chinese names is included for identification only and should not be regarded as their official English translation.
3. The Group has entered into a series of contractual agreements with the PRC Entities and their respective shareholders which enables the Group to enjoy the economic benefits of the PRC Entities. Further details of the contractual agreements are set out in the paragraph headed "Contractual Arrangements" below.

Contractual Arrangements

Taking consideration that the PRC government limits the foreign investment in recruitment agency, advertising and Internet-related businesses, the Group operates its recruitment and advertising businesses, both print and online, in the PRC through close cooperation with the PRC Entities. In order to recognise and receive the benefit from operation of the PRC Entities steadily, the Group entered into a series of contractual agreements with these entities, in which it does not have any ownership stake. The respective equity owners have not been granted by the Group any commission or other benefit for owning the stake in these entities.

Pursuant to the Contractual Arrangements, all directors, supervisors, the general manager and other senior managers of the PRC Entities must be nominated by the Group and the Group controls all material business operations of the PRC Entities. In view of the above, the Group has the (i) power to nominate or remove all the board members of the board of directors; and (ii) the power to cast all votes at meetings of the board of directors. Therefore, the Directors consider that the PRC Entities should be treated as subsidiaries of the Company and their results and assets and liabilities should be consolidated into the financial statements of the Group. The consolidated financial statements of the Group were prepared on this basis. The Contractual Arrangements provide, among other things that, all directors, supervisors, the general manager and other senior managers of the PRC Entities would be nominated by the Group and all their material business operations would be supervised by the Group.

In addition, the Group has already planned taking the advantage of the Closer Economic Partnership Arrangement, which allows Hong Kong companies to participate in advertising business in the PRC, to set up its own company to operate the advertising business in Shanghai in approximately one year.

The PRC Entities accounted for none of the Group's turnover, net profit and net assets, respectively for the year ended and as at 31st December, 2004, approximately 0.9%, nil and 4.0% of the Group's turnover, profit and net assets, respectively for the year ended and as at 31st December, 2005 and approximately 3.4%, nil and 2.7% of the Group's turnover, net profit and net assets, respectively for the year ended and as at 31st December, 2006. As the existing scale of resources of these entities under the Contractual Arrangements can accommodate the size of business operations for the foreseeable future, the Group had no present plan to employ a significant number of additional staff or allocate additional resources from Hong Kong.

After two years in the business, the number of staff for the PRC recruitment advertising and agency businesses has reached around 100. The Group has invested in aggregate approximately RMB20 million. The Directors believe that the size of the operation in the PRC should be adequate to cope with the organic growth of its PRC recruitment advertising business in the next two to three years.

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Further details of the PRC Entities and the Contractual Arrangements are set out below:

Shanghai Decai

As at the Latest Practicable Date, the registered capital and investment amount of Shanghai Decai were RMB1,000,000, which were funded by the Group and have been duly paid up. The shareholders of Shanghai Decai are Liu Yazhen and Chen Yingjie, who were respectively an Independent Third Party and an employee of the Group, holding respectively 98% and 2% of the equity interests in Shanghai Decai. The directors of Shanghai Decai were Shao Yang, Amy and Lam Lai Chu, both of whom were employees of the Group. The principal activities of Shanghai Decai included information consulting, recruitment agency and training services.

Under the Contractual Arrangements, RMCSC provides business consulting, technical support and supervision to Shanghai Decai's human resource consulting services. RMCSC also provides management and operation advices and solutions as a part of their enterprise development consulting services to Shanghai Decai.

Shanghai Haifan

As at the Latest Practicable Date, the registered capital and investment amount of Shanghai Haifan were RMB1,000,000 and approximately RMB10,000,000 respectively, which were funded by the Group and have been duly paid up. The shareholders of Shanghai Haifan are Liu Yazhen and Chen Yingjie, who were respectively an Independent Third Party and an employee of the Group, holding respectively 60% and 40% of the equity interests in Shanghai Haifan. The directors of Shanghai Haifan were Shao Yang, Amy and Lam Lai Chu, both were employees of the Group. The principal activities of Shanghai Haifan included design, production, agency, distribution services for various advertisements, sales and marketing, exhibition and convention planning and business consulting services.

Under the Contractual Arrangements, RMCSC provides business consulting, technical support and supervision services to support Shanghai Haifan's advertising business. RMCSC also provides management and operation advices and solutions for the advertising business carried out by Shanghai Haifan as part of their enterprise development consulting services to Shanghai Haifan.

Shanghai Lieying

As at the Latest Practicable Date, the registered capital and investment amount of Shanghai Lieying were RMB1,000,000, which were funded by the Group and have been duly paid up. The shareholders of Shanghai Lieying are Wu Jun and Su Leigang, both of whom were employees of the Group, holding respectively 95% and 5% of the equity interests in Shanghai Lieying. The directors of Shanghai Lieying were Shao Yang, Amy and Lam Lai Chu, both of whom were employees of the Group. The principal activities of Shanghai Lieying included provision of recruitment agency services and related services.

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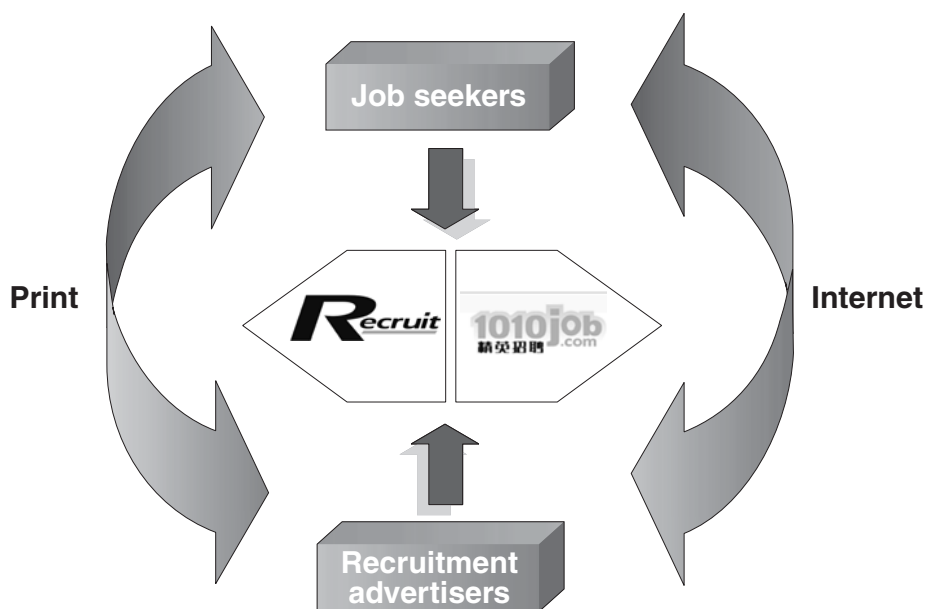
Under the Contractual Arrangements, RMCSC provides business consulting, technical support and supervision to Shanghai Lieying's recruitment agency services. RMCSC also provides management and operation advices and solutions as a part of their enterprise development consulting services to Shanghai Lieying.

ADVERTISING

Recruitment

The Group currently operates its recruitment business with the primary objective of linking job seekers and recruitment advertisers through a combined medium of print and the Internet. The following provides an illustration of the Group's business model:

Job seekers and recruitment advertisers feed on each other



(i) *Publications – Recruit magazine and 1010job精英招聘*

The Group publishes Recruit magazine in Hong Kong and 1010job精英招聘, through a local publisher, in Shanghai. Recruit magazine and 1010job精英招聘 provide readers with:

- (a) a comprehensive print-based source on recruitment opportunities and career enhancement services; and
- (b) information on career and personal development.

Recruit magazine and 1010job精英招聘 provide the latest career information to job seekers and recruitment advertisers through the print medium, in particular, to complement the Group's Internet operations for job seekers who choose not to rely solely on or have no access to the Group's websites.

Recruit magazine is a bilingual (English and traditional Chinese) recruitment advertising publication targeting white-collar job seekers in Hong Kong. The first issue of Recruit magazine was published on 3rd July, 1992. During the Track Record Period, the Group published a total of 304 issues of Recruit magazine. Recruit magazine is published twice a week, on Tuesdays and Fridays. Recruit magazine is a free publication distributed at over 500 locations including approximately 60 entrances of the MTR stations, 400 outlets of a convenience store chain, 25 selected newstands, eight universities and other tertiary institutions in Hong Kong.

Similar to Recruit magazine, 1010job精英招聘 is a recruitment advertising publication published in simplified Chinese characters aiming at white-collar job seekers in the PRC, particularly in Shanghai. The targeted recruitment advertisers include multi-national corporations, state-owned enterprises and listed companies. The first issue of 1010job精英招聘 (formerly in the name of "Corner Office精英之選") was published on 4th March, 2005. The Group distributed a total of 91 issues of 1010job精英招聘 during the Track Record Period. 1010job精英招聘 is distributed for free or sold at a nominal amount once every week on Friday at over 5,000 distribution points including major metro railway stations, bus stations and office buildings in central business districts in Shanghai. During the Track Record Period, the Group's recruitment advertising business in Shanghai suffered a trading loss.

(ii) Websites – recruitonline.com and 1010job.com

The Internet provides an important medium for the recruitment advertising industry by facilitating a wide dissemination of recruitment advertisements without geographical limitation faced by printed medium. The Internet enables interactive and personalised processing of recruitment information and allows recruitment advertisers to manage their recruiting process more effectively. The Group's recruitment website recruitonline.com provides a medium for exchange of information between job seekers and recruitment advertisers and offers job statistics, career-related features and other interactive self-enhancement information, which attract job seekers and recruitment advertisers to visit the websites.

Recruitonline.com is a bilingual website providing comprehensive career and recruitment related services in Hong Kong. Currently, recruitonline.com allows visitors to view content in English and traditional Chinese characters. The Group's career information website in the PRC, 1010job.com (formerly known as www.corneroffice.cn), was launched in March 2005. It offers career and job information tailored for job seekers in the PRC market. 1010job.com is utilised by the Group as a channel to enhance the brand recognition of 1010job精英招聘.

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The Group's recruitment websites offer a range of interactive and personalised functions to job seekers, including online search and application, advanced job search functions to short-list available job vacancies by reference to search category, automated job matching capability, job alert to job seekers based on their specifications and preferences, simultaneous multiple job applications and job recommendation to job seekers based on their searching history. In addition, they also provide information on personal and professional growth to job seekers such as selected articles about corporate culture, self-enhancement and learning courses and success stories of selected professionals, hyperlinks to various educational programs and courses available at local and overseas institutions, information and current job openings of selected corporations.

For the year ended 31st December, 2006, the average monthly number of visitors to recruitonline.com and 1010job.com were approximately 466,000 and 776,000, respectively and average monthly page views were approximately 9,000,000 and 6,000,000, respectively.

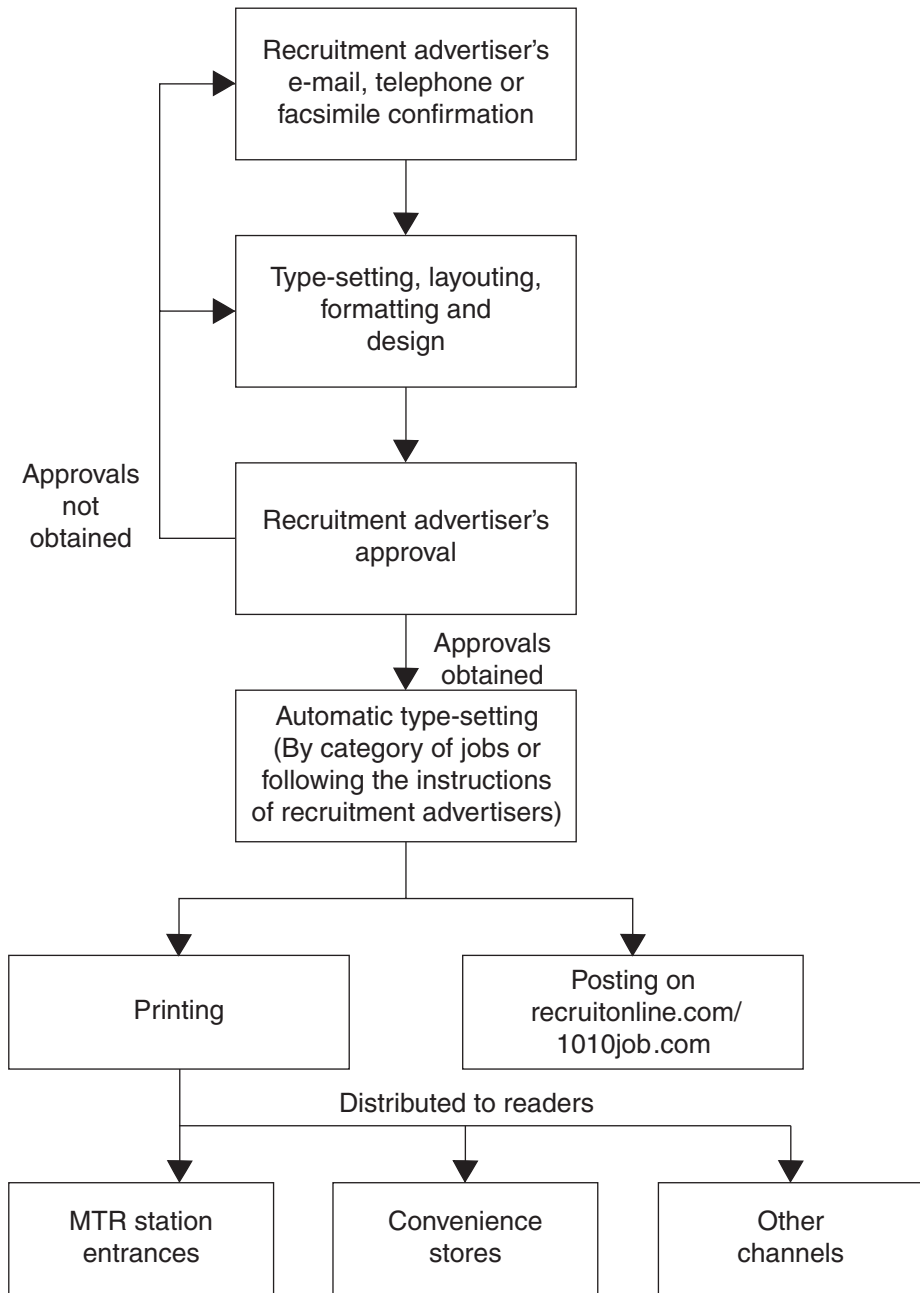
(iii) Operation process

The Group has an array of advertising packages for customers placing advertisements in Recruit magazine and/or on recruitonline.com. Advertisements placed at Recruit magazine will be posted on recruitonline.com at no extra cost. Alternatively, recruitment advertisers may choose to place advertisements on recruitonline.com only. 1010job精英招聘 also offers print packages to customers. The pricing of the advertising packages is determined with reference to, among other things, the number of advertisements, size of the advertisements and number of issues to be placed and competitors' offers.

Recruitment advertisers may place their advertising orders via e-mail, telephone or facsimile to the Group's sales teams in Hong Kong and Shanghai. After confirming the information, layout and design of recruitment advertisement and obtaining the recruitment advertiser's approval, the Group's production team will carry out type-setting of the advertisement. The Group amends the recruitment contents in accordance with advertisers' comments before finalising the advertisements. No recruitment advertisement would be posted if the approval of recruitment advertiser has not been obtained and the sales order would be cancelled. Finalised recruitment advertisement will be printed and distributed to readers and posted on recruitonline.com or 1010job.com simultaneously.

BUSINESS

Set out below is a diagram illustrating the sales process and distribution channels of Recruit magazine and 1010job精英招聘:



BUSINESS

(iv) *Regulatory matters in Hong Kong and the PRC*

Hong Kong

The Group is not required to obtain any specific licences or permits to carry out recruitment agency, advertising or Internet-related businesses in Hong Kong. The Group has obtained all requisite business registrations/licences for its operation in Hong Kong.

PRC

The PRC government limits foreign investment in recruitment agency, advertising and Internet-related businesses in the PRC and therefore the Group relies on the PRC Entities to operate its recruitment advertising and recruitment agency businesses in the PRC.

An entity is required to have a permit issued by the State Council to carry out publishing activities in the PRC. The Group therefore relies on a local publisher, which has the required permit, to publish 1010job精英招聘 in Shanghai. Save as disclosed above, the Group has obtained all requisite business registrations/licences for its operation in the PRC.

Inflight magazine

The Group has become the exclusive advertising market consultant and production services provider for two inflight magazines of CEA in February 2004 and October 2006 respectively and for two inflight magazines and one inflight newspaper of CSA in July 2005. The five agency agreements with the two PRC airlines have terms ranging from five and a half to 15 years.

(i) *Publications*

The Group currently acts as advertising market consultant and production services provider for two monthly inflight magazines, “東方航空 Eastern Air Connections” and “東方風情 View”, for CEA, two monthly inflight magazines, “南方航空 Gateway” and “空中之家 Nihao”, and a weekly inflight newspaper, “南方航空報 • 精英生活 CSN Elite”, for CSA, and a monthly inflight magazine, “Mabuhay”, for the Philippines Airlines. Set out below is a brief description of these inflight publications:

東方航空 Eastern Air Connections

“東方航空 Eastern Air Connections” is the flagship inflight magazine for CEA, which was first issued in 1988. It is published monthly with an estimated number of readers of 2.9 million for each month in 2006. The magazine is distributed on board all CEA’s flights. The magazine comprises articles with topics such as news and information about CEA, people’s profiles, events and stories in Shanghai, highlights of famous tourist attractions, lifestyle and leisure.

東方風情 View (formerly known as “香巴拉Shangri-la”)

“東方風情View” is CEA’s monthly lifestyle inflight magazine. It is published monthly commencing in October 2006. The estimated number of readers is about 1.6 million for each month in 2006. The magazine is distributed on board all CEA’s international and domestic flights departing from Shanghai Hongqiao and Pudong Airports, as well as at major airports in the PRC. The magazine covers a variety of topics including latest news on CEA, timepieces, cars, fashion, interior design, hotel, travel and other up-market consumer products.

南方航空 Gateway

“南方航空Gateway” is the flagship inflight magazine for CSA which was first issued in 1985. It is published monthly with an estimated 4.1 million readers for each month in 2006. The magazine is distributed on board all CSA flights. It is also available at lounges, VIP rooms, restaurants and hotels in selected airports in the PRC. The magazine provides readers with leisure and travel information, covering stories from CSA, feature guides and traveling tips, reports and interviews, lifestyle and art as well as updates on trendy items.

空中之家 Nihao

“空中之家Nihao” is CSA’s monthly luxury lifestyle inflight magazine. It is published monthly with an estimated 4.1 million readers for each month in 2006. The magazine is distributed on board all CSA’s international flights and all first and business classes together with selected economy class in domestic flights. It is also available at airport lounges and VIP rooms in selected airports in the PRC. The magazine covers a wide variety of topics including luxury lifestyle, travel, fashion, brand story, celebrities, other luxury consumer goods and the latest information technology products.

南方航空報•精英生活 CSN Elite

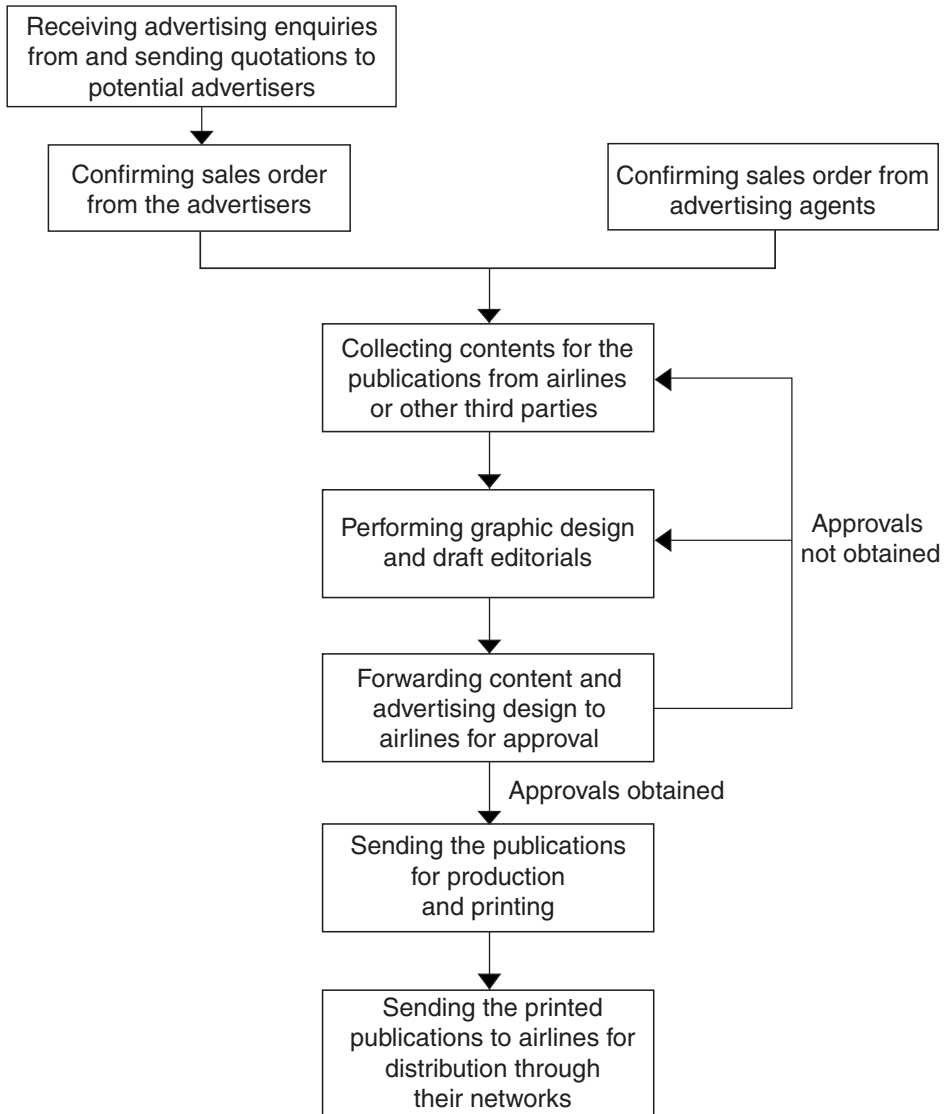
“南方航空報•精英生活 CSN Elite” is a weekly newspaper of CSA with a variety of contents including news and commentary, business, leisure, film and television, culture, sports, lifestyle and travel, as well as the latest information on CSA’s services. It is published on every Monday, with an estimated 1,000,000 readers for each issue. Copies of the newspaper are distributed on board all CSA’s flights and in lounges, VIP rooms, restaurants and hotels in selected airports in the PRC.

CEA and CSA are two leading airlines in the PRC. According to the annual report of CEA for the year ended 31st December, 2006, CEA currently has approximately 205 aircraft with approximately 423 routes, including approximately 105 international routes. The total number of flights per week was approximately 5,650 and annual passenger volume was approximately 35 million in 2006. According to the annual report of CSA for the year ended 31st December, 2006, CSA has approximately 309 aircrafts and 616 routes including approximately 90 international routes. It had an annual passenger volume of approximately 49 million and approximately 4,654 flight per week in 2006.

BUSINESS

(ii) Operating process

The Group is primarily responsible for advertising market consultancy, marketing, promotion as well as production of the publications for the two PRC airlines. The Group coordinates the production of the publications by compiling the editorials and contents, graphic designing, pagination and supervision of printing and distribution. The advertisements are forwarded to the airlines for approval and would be amended in accordance with the airlines' comments. No advertisement would be posted if the approval of the airlines has not been obtained and the sales order would be cancelled. Sale of advertising spaces in these publications is conducted through the Group's own advertising sales network and other independent advertising agents located in major cities in the PRC. Set out below is a flow chart which summarises the inflight magazines and newspapers advertising sales and production:



The advertisers of the inflight magazines are from various industries, including automobile, real estate, computers, telecommunication products, electronic and electrical home appliances and luxury consumer goods.

The pricing for advertising in the respective inflight magazine and newspaper is mainly based on the prevailing market rates of other inflight magazines and advertising medium as well as the estimated number of readers. The advertising rates for each of the publications are jointly reviewed by the Group and the respective airline annually with reference to the aforesaid factors. Subject to the approval from the respective airline, the adjusted rates will be effective from January in every year.

Statutory announcement

The Group has been the exclusive sales agent for legal and public notices of China Daily since 2003. The legal and public notices mainly include announcements issued by companies listed on the Main Board and notices of application for registration and renewal of liquor licences.

The Group provides announcement advertising space in China Daily to its clients through its own sales network. In addition to sales of advertising spaces, the Group also coordinates with advertisers, other intermediaries such as financial printers in the case of publishing a listed company announcement and China Daily to arrange for the publication of announcements and notices.

During each of the two years ended 31st December, 2005, the Group signed annual agreements with China Daily for sale of legal and public notice advertising spaces. The Group was required to pay a fixed annual fee to China Daily for utilising exclusively a certain number of pages of advertising spaces in the newspaper for each calendar year. Any utilisation of pages in excess was charged at variable rates. In 2006, the Group continued to be China Daily's exclusive sales agent. However, the Group was no longer required to pay a fixed annual fee to China Daily and was only charged for the actual number of pages of advertising spaces sold.

BUSINESS

In April 2000, the Stock Exchange first proposed to abolish the Main Board requirement for companies to publish announcements in newspapers (the “Electronic Disclosure Project”). Details of the Electronic Disclosure Project have been set out in the news release “HKEx Sets Date for the Launch of Electronic Disclosure and Abolition of Mandatory Paid Announcements” dated 23rd March, 2007. Under the first phase of the Electronic Disclosure project (“Phase 1”), starting 25th June, 2007, for the duration of six months, a paid announcement will no longer be required as long as the Main Board listed issuer publishes the full announcement on its own website and the Stock Exchange website. During Phase 1, a Main Board listed issuer will be required to publish a notification in the newspapers whenever it publishes an announcement. Notifications will no longer be required after 25th December, 2007. Twelve months after commencement of Phase 1, all Main Board and GEM issuers are required to have their own website to publish announcements and other Listing Rules documents in addition to publication on the Stock Exchange or GEM websites. Accordingly, the Directors are of the view that the Group’s business of statutory announcement will have limited development in the future.

For each of the three years ended 31st December, 2006, the turnover of statutory announcement were approximately HK\$13.5 million, HK\$12.8 million and HK\$14.4 million, respectively, representing approximately 13.0%, 5.6% and 4.8% of the Group’s turnover for the respective years.

The operating profit margins of the statutory announcement business were approximately 29.9%, 34.8% and 29.4% for each of the three years ended 31st December, 2006, respectively. The operating profit of the statutory announcement represent 11.9%, 11.5% and 6.3% of that of the Group for each of the three years ended 31st December, 2006, respectively. As the profit contributions from the sales of advertising spaces in China Daily have been declining and becoming insignificant in terms of above percentages in the Track Record Period, the Directors believe that loss of the statutory announcement business will not have any significant adverse effect on the Group’s future profitability.

PRINTING

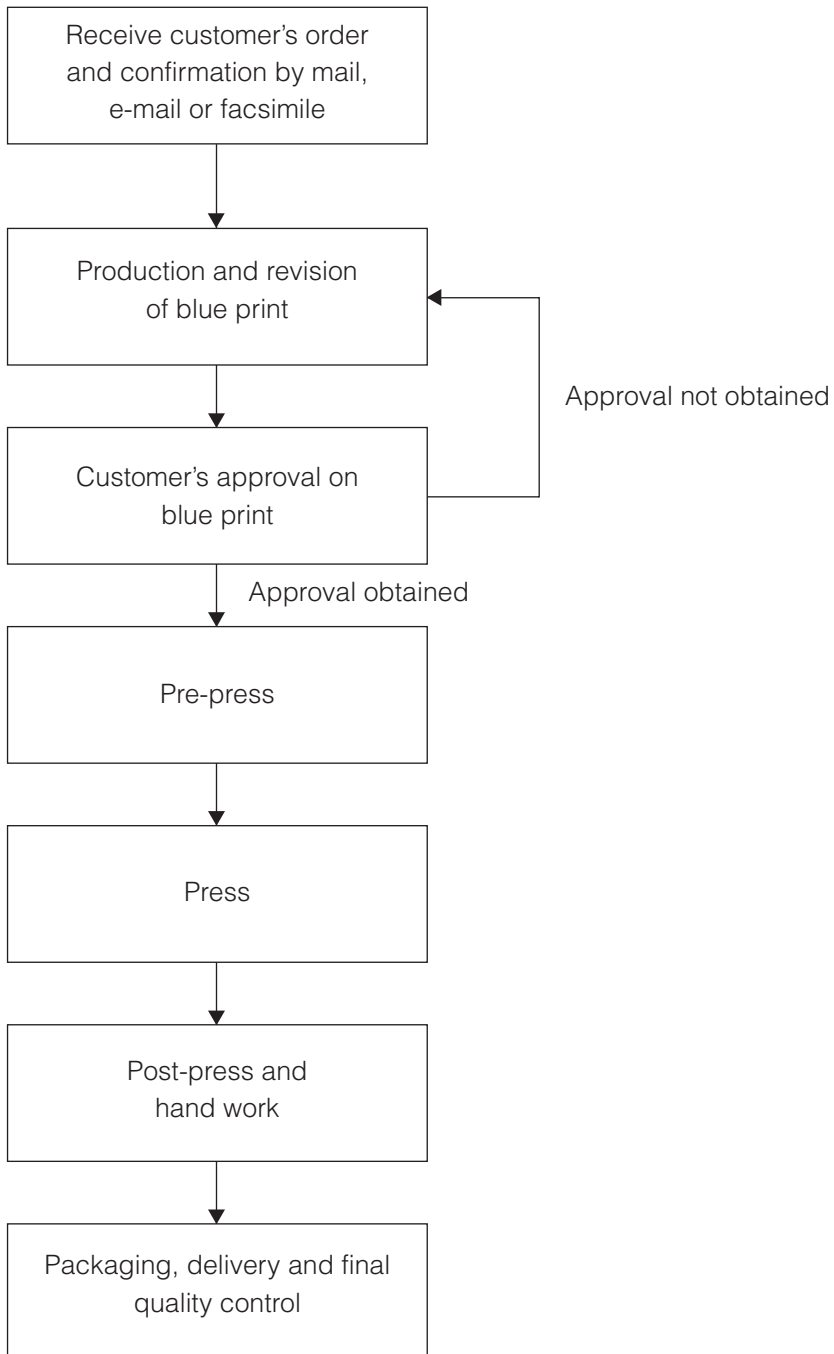
The Group established its printing division in early 2005 to carry out high-quality printing for photograph books, cookbooks, art books, text books, children’s books and other printed products. The major customers are publishers in Australia, the United Kingdom and the United States. For the year ended 31st December, 2005, 112 titles and 3.6 million copies of books were printed by the Group. For the year ended 31st December, 2006, 808 titles and 17.3 million copies of books were printed by the Group. The turnover attributable to the printing division amounted to approximately HK\$66.5 million and HK\$105.7 million for each of the two years ended 31st December, 2006, respectively.

The Group currently conducts the manufacturing of its printed products by way of processing arrangement in the Production Facility. The Group’s printing division maintains its sales office in Hong Kong, where an experienced sales team is situated to serve overseas customers.

BUSINESS

(i) Operation process

The main outputs of the printing division of the Group are books and other printed products. The following flow chart is a general overview of the major steps involved in the production process:



(a) Blue print

Upon the receipt of customer's sales orders, detailed specifications of the products, including content files, film, colour proof and layout, a blue print together with the colour proof of the product will be created for customer's review, comment and approval.

(b) Pre-press

Prior to the commencement of presswork, a series of pre-press operations including colour separation, film imposition and plate-making have to be undertaken. At the colour separation stage, a set of four film positives or negatives in each of the primary colours of cyan, magenta, yellow and black are prepared. Film imposition is a stage during which the film positives or negatives are prepared, placed and registered in the appropriate order. After the process of film imposition, the image of each of the four film positives or negatives will then be transferred onto an aluminium printing plate before offset printing. The above pre-press operations can be carried out in computers and the digital images will be transferred to digital plates for offset printing.

(c) Press

A set of aluminium printing plates are mounted onto a cylindrical drum on the printing machine. In the printing process, ink is applied on the plate and transferred onto the paper that passes through the printing unit. Each printing unit prints one colour. When a sheet of paper passes through multiple printing units, different colours are printed on the paper. Most of the Group's sheet-fed printing machines are equipped with advanced computer devices and multiple printing units ranging from two-colour to five-colour capacity. Two-colour printing machines are used for printing jobs with one or two colours such as manuals whereas four-colour printing machines are used for more complicated printing jobs such as posters and illustrated books. Five-colour printing machines are capable of printing one special colour such as metallic or fluorescent colour in addition to the four primary colours in one production run. The web-offset machines are used for high-speed and high-volume production and paper used by these machines is in reel form.

(d) Post-press

The post-press operations include paper folding, die-cutting, gold stamping, laminating, signature gathering, stitching, gluing, sewing, binding and trimming. For books, printed sheets of text are machine-folded to form a set of pages or a "signature". These signatures are placed in numerical order to be machine-sewn or glued to form a book block, which is then machine-trimmed to a specified size. The finished goods are inspected and compared with the blue print to ensure the required qualities and standards are attained.

BUSINESS

(e) Hand work

Decorative items or premiums are sometimes required to be inserted together with the book sets by manual procedures including drilling, case-making, wire-O binding, box and bag gluing and assembling.

(f) Quality assurance

Quality assurance is performed to examine the product's quality against the acceptance quality level standard at every stage of the production process. Incoming raw materials, such as paper and ink, are periodically tested against customers' technical specifications. Colour is matched against the customer's approved blue print. Finished goods undergo a number of tests, such as visual inspection and other applicable tests, before packaging and delivery to ensure the exact specifications of the customers are met.

(g) Packaging, delivery and final quality control

All packaged finished goods are inspected again to confirm the acceptance before they are despatched to customers. The actual inspection standard varies subject to respective customer's requirements.

(ii) *Production Facility*

Details of the Production Facility as at the Latest Practicable Date are set out below:

Year of commencement	2005
Location	Xianan Industrial Area, Yuanzhou Town, Boluo County, Huizhou City, Guangdong Province, the PRC
Nature	Operated by a PRC Independent Third Party through the Processing Arrangement
Usage	Manufacture of printed products
Floor area	28,885 sq. m.
Number of workers	approximately 640

As at the Latest Practicable Date, the Production Facility has 14 sets of pre-press machines including colour proofer, printer, imposition proofer, plate exposure machine, plate processor, film processor, film process unit and control station. The Production Facility also has six sets of colour printing machines, five sets of folding machines, four sets of guillotines, one set of gathering machine, eight sets of binding machines for sewing, trimming, saddle stitching, case making and production line, one laminator and one set of endpaper tipping machine.

BUSINESS

Currently, the Production Facility possesses the capacity of binding hardcover books and paperback books of approximately 1.0 million copies and approximately 1.2 million copies per month, respectively, and saddle stitching of approximately 4.2 million copies per month. In general, completion time of printing a paperback job is around two weeks while one more week is required for a hardcover job. For the year ended 31st December, 2006, the average utilisation rate of the plant and machinery for production was approximately 70% for the Production Facility. The calculation of the average utilisation rates is based on the actual production volume of the Group's products and the designed production capacity during the year. The designed production capacity of the Production Facility is calculated based on the number of printing machines in the Production Facility, the rate of impression for each printing machine, the operating period of each printing machine in each working day and the number of working day in each year.

When the Production Facility is at full capacity, particularly in peak seasons, the Group may sub-contract certain parts of the production processes or some sales orders to sub-contractors. The Company negotiated the terms and conditions of each of the sub-contracting orders with independent sub-contractors on a job-by-job basis with reference to the prevailing market terms and conditions. None of the sub-contractors have been engaged by the Group has or had any business or family relationship with any directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

For each of the three years ended 31st December, 2006, the sub-contracting fees amounted to approximately nil, HK\$23.5 million and HK\$8.7 million, respectively, representing approximately nil, 17.2% and 4.8% of the direct operating costs of the Group for the respective years.

(iii) Processing Arrangements

In March 2005, 1010 Printing entered into the Processing Agreement with 博羅縣園洲鎮下南實業發展公司 (Boluo County Yuanzhou Town Xianan Industrial Development Company, the "PRC Party") for an operating period commenced from March 2005 and ending in April 2014. The PRC Party is the owner of the Production Facility and an Independent Third Party, and 博羅縣對外加工裝配服務公司 (Boluo County Foreign Subcontracting Service Company) is the business agent of the PRC Party and an Independent Third Party. The PRC Party carries out the manufacturing of printed products for 1010 Printing in the Production Facility. A summary of the principal terms of the Processing Agreement is set out below:

Primary responsibilities

(a) the foreign party shall:

- (1) provide all machinery and equipment with aggregate value of not less than HK\$107 million for the manufacturing of products at the Production Facility;

BUSINESS

- (2) employ and provide technical personnel to the Production Facility for the installation of machinery and equipment in the Production Facility and technical training to the workers. Salaries and all other related expenses incurred by these technical personnel are to be borne by the foreign party;
 - (3) provide all necessary materials: raw materials, ancillary materials and packaging materials and fuel for the production processes;
 - (4) be responsible for the legality of the trademarks used on the products;
 - (5) pay processing arrangement fee to the business agent of the PRC Party; and
- (b) The PRC Party shall provide the manufacturing plant, ancillary facilities and labour forces for manufacturing of products for the foreign party; and
 - (c) the agent shall, upon the establishment of the factory premises and until the expiry of the Processing Agreement, (a) import raw materials; (b) export finished goods; and (c) collect the processing fee.

Delivery of raw materials and finished products

The foreign party shall deliver, on a monthly basis, the raw materials, ancillary materials and packaging materials required to the Production Facility two days before production and in accordance with the schedules, time, quantities and specifications as agreed between the foreign party and the PRC Party.

The foreign party is responsible to provide all necessary materials for the production process and the PRC Party is responsible for the manufacturing of products for the foreign party. After completion of the production process, all finished products will be delivered to the foreign party. Under the Processing Agreement, the PRC Party does not have any ownership in the finished products manufactured at the Production Facility.

Transportation costs

The foreign party shall bear transportation costs between the Production Facility and Hong Kong.

Insurance

The foreign party shall be responsible for the insurance of the respective properties of each party to the Processing Agreement.

BUSINESS

Processing fees

The foreign party shall pay a processing fee for the operating cost, insurance, tax, handling fee and etc. incurred by the PRC contracting parties for the day to day operation of the Production Facility. The amount of the processing fee is determined by the agreed prices on each production contract and with reference to wages for each employed worker.

Termination

The contracting parties shall decide through negotiation to extend or terminate the Processing Agreement three months before its expiry date.

Quality Control

Under the Processing Agreement, the Group is responsible for providing management expertise and controlling the quality of the finished products by provision of manufacturing machinery, raw materials and technical support to the Production Facility. As at the Latest Practicable Date, the Group had full time management staff to supervise the production process and a team of more than 30 staff to conduct quality control services at the Production Facility. It also has established quality control standards and procedures for the team to adhere to. The Production Facility has received ISO certifications, including ISO 9001:2000 and ISO 14001:2004 for its quality management system and environmental management system. As at the date of the Latest Practicable Date, the Directors were not aware of any material claim (actual or pending) against the Group by the PRC Party in relation to the Processing Arrangement.

PRC legal opinion

Zhong Lun confirmed that the Production Facility's executions and performance under the Processing Agreement has obtained all licences and permits, and will not result in a violation at any rules and regulations applicable in the PRC for its operation.

BUSINESS

SALES

Turnover

The table below illustrates the breakdown of the Group's turnover by business segments during the Track Record Period:

	For the year ended 31st December,		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Advertising income	103,995	160,570	192,622
Printing income	–	66,533	105,711
	<hr/>	<hr/>	<hr/>
Total	<u>103,995</u>	<u>227,103</u>	<u>298,333</u>

The advertising income continuously grew in the Track Record Period, which is mainly attributable to the increase in revenue from the inflight magazine business since the Group commenced co-operations with CEA and CSA in 2004. The introduction of printing services in 2005 also contributed considerable revenues to the Group for the two years ended 31st December, 2006. Further details of the turnover of the Group are set out in the paragraph headed "Management's discussion and analysis" in the "Financial information" section in this document.

Sales to the Group's five largest customers accounted for approximately 24.5%, 40.3% and 46.3% respectively of the Group's turnover for each of the three years ended 31st December, 2006. The sales of the Group's single largest customer accounted for approximately 9.1%, 13.4% and 17.0%, respectively of the Group's turnover for each of the three years ended 31st December, 2006. None of the Directors or the Shareholders which to the knowledge of the Directors owns more than 5% of the Company's share capital and any of their respective associates had interests in any of the Group's five largest customers during the Track Record Period.

BUSINESS

Hong Kong, the PRC and Australia are the Group's major markets. The table below sets out the breakdown of the Group's turnover by reference to the location of customers during the Track Record Period:

	For the year ended 31st December,		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	74,111	83,790	87,657
The PRC	29,884	77,246	111,052
Australia	–	52,494	72,843
The US	–	6,485	2,938
The UK	–	5,064	21,930
New Zealand	–	2,024	1,598
Others	–	–	315
	<hr/>	<hr/>	<hr/>
Total	103,995	227,103	298,333
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The increase in turnover from the PRC was mainly due to the Group's expansion into inflight magazine business in 2004. There was also considerable revenue contribution from overseas as the Group commenced printing operations in 2005. Further details of the geographical breakdown of the Group's turnover are set out in the paragraph headed "Management's discussion and analysis" under the "Financial information" section in this document.

The Group's turnover are subject to seasonal fluctuations. The peak seasons for recruitment advertising usually fall at the beginning of each year and autumn. The peak season for the Group's inflight magazine business usually coincide with the three major "Golden Week" holidays in the PRC, including the Chinese New Year holiday in January or February, the Labour Day holiday in early May and Chinese National Day holiday in early October. In addition to the above, advertising sales in the second half of each year are usually higher as compared to first half as advertisers step up their advertising campaign in autumn for goods such as wine and winter apparels, which are the major categories of products advertised in the Group's inflight publications. As for statutory announcement, the peak seasons are generally in March and April and in August and September every year when Hong Kong listed companies, majority of which have year end date on 31st December, publish their annual results or interim results announcements by the end of the aforesaid periods. The peak season of the printing division is in the second half of the year as books are produced and shipped to overseas before Christmas.

BUSINESS

Credit policy and payment terms

The Group's accounting and finance department reviews the credit terms of each existing and prospective customer. The settlement and credit terms granted to customers are determined with reference to, among other things, (i) length of business relationship; (ii) payment history; and (iii) financial strength and creditability of the customer. Customers of the advertising business are generally offered credit periods between 7 and 150 days, while those of the printing business are generally offered credit periods of 30 to 120 days according to the customers' creditability.

For each of the three years ended 31st December, 2006, the average trade receivables turnover days were approximately 44 days, 65 days and 78 days, respectively. Based on past collection history, the Directors consider that the Group's credit risk is minimal.

Bad debt policy

The Group implements a stringent credit control policy on outstanding trade receivables. The Group examines trade receivable aging reports on a monthly basis to assess recoverability of trade receivables and follow up with the customers to demand settlement for those long outstanding balances. Specific provision is made when an outstanding balance is overdue and the recoverability of the long outstanding balance is in doubt. On the above basis, the Directors consider the existing policy on making provision for bad and doubtful debts is appropriate and the amount of provision is adequate.

The Group's trade receivables as at 31st December, 2004, 2005 and 2006 were approximately HK\$17.8 million, HK\$63.5 million and HK\$63.3 million, respectively. The increase in trade receivables as at 31st December, 2005 as compared to that as at 31st December, 2004 was mainly due to the expansion of the Group's business into printing. The customers of the printing business were offered longer credit terms ranging from 30 to 120 days according to the industry practice and their creditability. Impairment of receivables made for each of the three years ended 31st December, 2006 were HK\$290,000, HK\$698,000 and HK\$2.1 million, respectively. During the Track Record Period, the Group did not experience any significant amount of bad and doubtful debts.

As at the Latest Practicable Date, approximately 99.6% of the trade receivables as at 31st December, 2006 were settled.

MARKETING

The Group's marketing strategies are to develop and promote its own brands in recruitment advertising business and to build unique images with superior customer services and operating efficiency. For inflight magazine business, the Group has the strategy to co-develop the airlines' brands given the Group is their exclusive advertising market consultant and production services provider. The Group has dedicated marketing teams in its Hong Kong and Shanghai offices to handle most of the marketing, advertising and promotion activities. The Group also engages external advertising companies to

assist in conducting promotional events. For each of the three years ended 31st December, 2006, the amount of marketing and promotion expenditures incurred by the Group were approximately HK\$0.8 million, HK\$5.9 million and HK\$4.5 million, respectively, representing 0.7%, 2.6% and 1.5% of the Group's turnover for the respective years.

The Group's major marketing and promotional activities are described below.

Advertising

(i) Recruitment exhibitions and seminars

The Group regularly participates in local career exhibitions, shows and fairs. The Group has also co-organised training and marketing seminars with professional organisations and institutions covering a variety of topics such as recruitment skills, corporate strategy, education and training, personal enhancement, laws and regulations and industry development. At these venues, the Group's publications are distributed to job seekers.

Through participating in exhibitions and organising seminars, the Group enhances its corporate image, promotes its services, gathers market information and keeps abreast of the latest market trends.

(ii) Membership programme

The Group launches various promotional programmes from time to time to acquire new members for Recruit and 1010job. For instance, roadshows are set up in commercial areas and in universities where the Group distributes promotion leaflets and souvenirs to job seekers to encourage their use of the Group's services.

(iii) Advertising

To reinforce customers' awareness of the Group's brandnames and services, advertisements are frequently placed in newspapers, the Internet, major PRC Internet search engines, magazines, liquid crystal displays inside major commercial buildings and panels of public transportation vehicles, that share similar reader profile with the Group. The Group's print advertisements can be found in publications distributed in Hong Kong and the PRC. The Group also places advertisements in outdoor or other focus media channels.

(iv) Information board

The Group's PRC website, 1010job.com, provides information on various recruitment related topics such as salary level, corporate information and interview skills.

BUSINESS

(v) Market research

Market research had been conducted by the Group and an independent marketing research firm on recruitment advertising markets in Hong Kong. The marketing research indicated that the Group is recognised as one of the leaders in recruitment advertising services in the area. The results of the marketing research were published in the Group's publications and websites to promote the Group's services.

(vi) Promotional calls to potential advertisers

The Group constantly monitors recruitment advertisers who have advertised in other competing media. After identifying potential advertisers, the customer service staff of the Group contacts them to explore sales opportunities.

(vii) Social events

The Group partners with the PRC airlines for which it is a marketing consultant and production services provider to sponsor a variety of social events including movie premieres and dinner parties for promoting the Group's services and maintaining exposure and awareness of the airlines' brands.

(viii) Regular meetings with customers

Frequent and close communications are maintained with airlines and other advertising agents with a view to enhancing business relationships. The Group pays regular visits to discuss development plans, market outlook and to explore further business opportunities with them.

Printing

(i) Book fairs

The Group regularly attends local and overseas books fairs. Through attending these fairs, the Group gathers market information and observes market developments. At these venues, the Group also meets prospective customers to explore new business opportunities.

(ii) Regular meeting with customers

The Group visits overseas customers frequently to maintain close contact with them, keep abreast of market trends and develop future business plans. Customers' opinions are collected for improvements on the Group's operations, designs and services.

COMPETITION

Advertising

(i) Recruitment

The recruitment advertising industry is competitive with moderate barriers of entry. The principal barriers of entry in this industry include market recognition, funding and understanding of and experience in the industry. The Directors believe that the Group is a major force in the Hong Kong market and one of the players in the Shanghai market. The Group's major competitors are other recruitment advertising media with print publications and/or online services as well as the newspapers which are distributed for free. The competitors directly compete with the Group in Hong Kong and Shanghai. In Hong Kong, the competitors' publications are either major newspapers or newspaper distributed for free in MTR stations. These competitor's publications may also be specialised in certain industry sectors. Based on a research carried out by an independent market research firm, the revenue of Hong Kong recruitment advertising market was approximately HK\$1.5 billion in 2006 and the Group was ranked third in market. The competitors in the PRC enjoyed first mover advantage as the Group's recruitment advertising business in the PRC only commenced in 2005.

The differentiation among the recruitment advertising operators lies in their ability to develop brand awareness, deploy Internet application in job seeking and improve search capability, customer service as well as to provide competitive pricing.

The Directors consider that the Group's success in the recruitment advertising business is attributable to its established job seeker and recruitment advertiser databases. Based on a market research carried out by an independent market research house in May 2005, Recruit magazine was voted the most popular recruitment advertising publication in Hong Kong.

In respect of the PRC market, the Group has launched a series of marketing activities in Shanghai for the purpose of promoting 1010job精英招聘. The Directors consider that brand awareness of the 1010job精英招聘 in Shanghai is essential for the Group's plan to further expand throughout the PRC. Based on a research carried out by an independent market research firm, the PRC recruitment advertising market was estimated to be approximately RMB5 billion in 2006. The Directors consider that the Group has yet to increase its market share in the PRC recruitment advertising market.

(ii) Inflight magazine

The inflight magazine industry is characterised by having a small number of service providers given the characteristics of Chinese civil aviation industry. In this industry, market participants primarily compete on the recognition and distribution strength of the airlines, funding, pricing and product design and quality.

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Based on a research carried out by CTR Media Intelligence, an independent market research firm, on the PRC advertising market, the magazine advertising market in the PRC was estimated to be over RMB5 billion in 2006. Comparing to the Group's revenue for its inflight magazine operations of approximately HK\$104.8 million for the year ended 31st December, 2006, the Directors consider that the Group has yet to establish a significant market position in the PRC magazine advertising market.

Nevertheless, the Directors consider that the Group is a major player specifically within the inflight magazine market as it acts for two of the three leading airlines in the PRC. The competition in the industry principally comes from the third major PRC domestic airline headquartered in Beijing. The Group may continue to grow in this segment as the Group is enjoying the advantage of the anticipated expansion of the PRC carriers following the growth in the PRC economy.

(iii) Statutory announcement

During the Track Record Period, China Daily had been one of the only three English print newspapers circulated in Hong Kong participating in the English statutory announcement market. The competitors are two other local major English newspapers.

All Main Board listed companies in Hong Kong are required to publish announcement and financial results in print media (one Chinese newspaper and one English newspaper) throughout the Track Record Period. As of 31st December, 2006, there were 975 Main Board listed companies on the Stock Exchange. Out of the aforesaid 975 companies, 116 of them were the Group's clients, which represented approximately 11.8% of the total number of Main Board listed companies in Hong Kong.

With the certainty that listed companies will no longer be required to publish announcements in newspapers, the Directors anticipate that the competition in the market will intensify, which may adversely affect the performance of the Group in this segment.

Printing

The printing industry is a highly competitive and fragmented market characterised by having a large number of service providers and a variety of product categories. As a start-up printer, the Group has an insignificant market share and it has to compete for orders from overseas publishers with many other book printers located in Hong Kong, Guangdong Province in the PRC and the Southeast Asia. Comparing to approximately 18,000 printers in Guangdong Province with an output of over RMB100 billion in 2006, the Group's printing business has insignificant market share and market position. The Group considers that various factors including operating efficiency, sales network, pricing and quality of products as well as customer services may affect the performance of those engaged in printing businesses.

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The Directors consider that the Group has a short lead time between receiving orders and delivering products, competent and seasoned management team and competitive cost structure enabled by its production base in the PRC. Compared to other printers in the market, the Group's product differentiation is minimal. As a result, the Group has focused on its abilities in providing quality customer services.

PURCHASING, INVENTORY CONTROL AND SUPPLIERS

Purchasing and inventory control

The Group's inventories are principally raw materials, including paper and ink, for its printing division. Purchases are mainly made in Hong Kong.

The Group purchases paper from independent paper suppliers in the market. The Group maintains a list of suppliers and constantly reviews the quality, market reputation, pricing, delivery time and after sales services they offer. Before placing orders, the Group will obtain at least two quotations from different paper suppliers to ensure the purchase price is in line with the market price.

There was no material fluctuation in the prices of the Group's major paper material during the Track Record Period. The monthly average price of the Group's major paper material was approximately US\$860 per tonne and US\$859 per tonne for each of the two years ended 31st December, 2006, respectively. The paper costs accounted for approximately 38.7% and 44.3% of the direct operating costs of the Group's printing business and approximately 15.4% and 18.8% of the direct operating costs of the Group for each of the two years ended 31 December 2006, respectively.

The majority of the Group's raw materials are purchased only when orders are received from customers. For materials that are commonly used, the Group maintains a certain level of inventory so that urgent orders from customers can be flexibly handled. Furthermore, the Group communicates purchase plan of raw materials with its major suppliers in order to secure timely and sufficient supply and to enjoy purchase discount.

During the Track Record Period, the price of the Group's major paper material did not change materially and the Group did not experience any significant impact on its profitability due to paper price fluctuations. To mitigate the possible impacts on the profitability of the Group's printing business due to paper price fluctuations, the Group's printing division will consider the paper costs before determining the sales price and confirming the sales order with customers. As a result, the profit margin of sales order can be maintained despite fluctuations of paper price, if any.

The Group has set up a sound and reliable internal control policy in monitoring the Group's inventories to ensure they are properly and accurately recorded. A computerised perpetual inventory control system has been implemented to maintain a detailed record of stock quantities and movements. The Group performs full physical stock-take on a quarterly basis. All damaged, defective or obsolete items identified during stock-take are written-off.

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The Group has adopted a prudent accounting policy on inventory throughout the Track Record Period. Specific provision is made for slow-moving or obsolete stocks. Due to the prudent purchasing policy, there has been no slow moving stock or obsolesces of inventory resulted or provided during the Track Record Period. The Group did not have any inventory until it started its printing business in 2005. For each of the two years ended 31st December, 2006, the Group's average inventory turnover days were 68 days and 92 days, respectively.

Suppliers

Purchases from the Group's five largest suppliers for each of the three years ended 31st December, 2006 accounted for approximately 85.3%, 56.7% and 47.7% of the Group's purchase respectively, while purchases from the Group's single largest supplier accounted for approximately 26.2%, 15.1% and 22.3% respectively of the Group's purchase for the same year. PPGL, being one of the top five suppliers during the Track Record Period and an associated company of the Group, is owned as to 50% by PPGI. PPGI is owned as to approximately 16.67% and approximately 2.78% respectively by GEC and CFIC, both of which are individually interested, either directly or indirectly, in 5% or more of the issued share capital of the Company as at the Latest Practicable Date. Save as disclosed above, none of the Directors, the Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) and any of their respective associates who is interested in 5% or more of the issued share capital of the Company has any interest in any of the Group's top five suppliers during the Track Record Period.

Save for the net balance payable to CSA which is to be settled on an annual basis in around March or April each year according to the terms of the relevant agreement between CSA and the Group, the Group's purchases are mostly settled by way of cheques and telegraphic transfers with a credit term of up to 90 days from the date of suppliers' monthly statement. The average trade payables turnover days for each of the three years ended 31st December, 2006 were approximately 5 days, 44 days and 54 days, respectively.

In order to ensure good quality and timely arrival of the Group's purchases, the Group is selective in choosing suppliers. The Group maintains a list of suppliers and constantly reviews the quality, market reputation, pricing, delivery time and after sales services they offer. The Group also assesses suppliers with reference to their market reputation through enquiries and market credit reports. Before placing purchase order, the Group will test the quality of the goods through trial orders or samples provided by suppliers. Apart from the above, there are ongoing assessments on existing suppliers, and suppliers not meeting the Group's requirements are disqualified and removed from the suppliers' list.

Given most materials used in manufacture of the Group's products are not leading edge items, the Group considers majority of its purchases can be sourced from a number of alternative suppliers at prices comparable to those being offered by the Group's existing suppliers. The Group has not encountered any significant disruption to its production which was caused by shortage of supply from the Group's existing major suppliers during the Track Record Period. Based on past experience with its major suppliers, the Directors

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do not envisage any significant difficulties in sourcing any raw materials from the Group's existing suppliers or finding alternative suppliers if necessary in the future.

INTELLECTUAL PROPERTIES

The Group has registered or applied for registration of the trademarks and domain names in Hong Kong and the PRC. Further details of the Group's intellectual property rights are set out in the paragraph headed "Intellectual properties" in the "Statutory and general information" section in Appendix V to this document. The Group applied for registration of three trademarks to the State Trade Mark Registry of Administration of Industry and Commerce in the PRC in 2005 but registration had not been granted to the Group at the Latest Practicable Date. The Group was informed that it would take at least 30 months for registration of the relevant trademarks. The Group was also informed that, in general, although the trademarks are not yet registered, the Group could still take legal action to protect its rights.

No material infringement claims were made by or against the Group in relation to intellectual property during the Track Record Period.

INFORMATION TECHNOLOGY

The technology strategy for the Group is to build a system that can provide a reliable service to its users at all times and enable management of the website traffic, job seeker and recruitment advertiser databases as well as other internal management information systems. The Group's computer system comprises independent servers and database systems equipped with firewalls and routers. The Group uses market-leading software and hardware components to set up its computer system to maintain and operate the Group's websites and management information systems. In order to ensure that the computer system is fully functional, the Group has engaged leading hardware manufacturers to provide the hardware support and 24-hour network maintenance services. Both in-house information technology specialist and outsourced software development house developed and provided maintenance service to the computer software and interface used in the Group's websites. The Group has not encountered any material network interruptions caused by system failures.

The Group is not aware of any non-compliance of Personal Data (Privacy) Ordinance or any leakage of confidential information and personal data provided by the job seekers to the Group as a result of computer viruses or hackers. The Group has taken the following precautions and measures to protect its data security:

- firewall protection;
- upload attachments are stored in internal server;
- user's passwords are saved and encrypted with hash function; and
- distributed servers are used for handling service and data requests separately.

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Up to the Latest Practicable Date, the Group has not experienced any material disruption to the operations of the Group's websites.

The Directors are not aware of any liability claims against the Group in relations to the website content accessible on or through recruitonline.com and 1010job.com.

OTHER PROPERTIES

Apart from the Production Facility, the Group also owns and rents a number of office premises in Hong Kong and the PRC. The Group's head office is located at 26th Floor, 625 King's Road, North Point, Hong Kong, which houses the marketing, production planning, management information system, accounting and finance as well as administration departments. Further details of the office premises are contained in the property valuation report set out in Appendix III to this document.

As at the Latest Practicable Date, one underlying lease agreement of the office of the Group in Shanghai has not yet registered. It cannot be registered as the relevant document in relation to the legal title of such property had not been provided by the relevant landlord. Zhong Lun advised that given such relevant documents remained outstanding, they were unable to ascertain whether the respective landlord had the legal right to lease the properties to the Group. If there are disputes over the legal title of the lease property, such lease agreement may be adjudged by PRC courts to be invalid under the PRC laws. The PRC court may require the Group to cease occupying the relevant leased property in the event that the respective landlord is not the real owner of the leased property. In the event that the Group is ordered by the court to cease occupying the relevant property, the Group will make relocation arrangement accordingly and such relocation cost is expected to be less than RMB5,000. The Group does not expect to encounter any major difficulties in seeking another office to continue with the operations.

INSURANCE

The Group has maintained property all risk insurance, public liability insurance and employee compensation claims insurance as at the Latest Practicable Date. Property all risk insurance covers the Group's assets which include plant, machinery, office furniture and fixtures and inventory against accidental, theft and physical loss or damage. Public liability insurance covers third party personal injury and property loss/damage claims against us relating to the Group's plants, warehouses and offices. Employee compensation claims insurance covers employee personal injury during the period of employment. During the Track Record Period, the Group has not made any material claims. The Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect the Group from any potential loss or damage.

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LEGAL PROCEEDINGS

The Directors confirm that there are no material litigation, arbitration or administrative proceedings currently pending or threatening against the Group that may have a material adverse impact on the Group's business or results or operations.

The Directors confirm that there are no fines, confiscation of advertising fees, orders to cease dissemination of the relevant advertisement, etc. which have been imposed on the Group.

ENVIRONMENTAL MATTERS

The Production Facility in the PRC discharges waste water and chemical waste. Under the Processing Agreement, the PRC party is responsible for implementing measure to ensure the Production Facility complies with the applicable laws and regulations regarding environmental protection. Other than the operation of the Production Facility, the activities carried out by the Group, including its PRC subsidiaries and the PRC Entities, do not involve any discharge of solid, liquid or gaseous pollutants. Hence the environmental protection related laws and regulations are not applicable to these companies. The Group has not been in breach of any laws and regulations on operational safety in the PRC and Hong Kong.