北青传媒 BEIJING MEDIA

# Beijing Media Corporation Limited

Stock Code: 1000

# 2005 ANNUAL REPORT

A joint stock limited company incorporated in the People's Republic of China with limited liability

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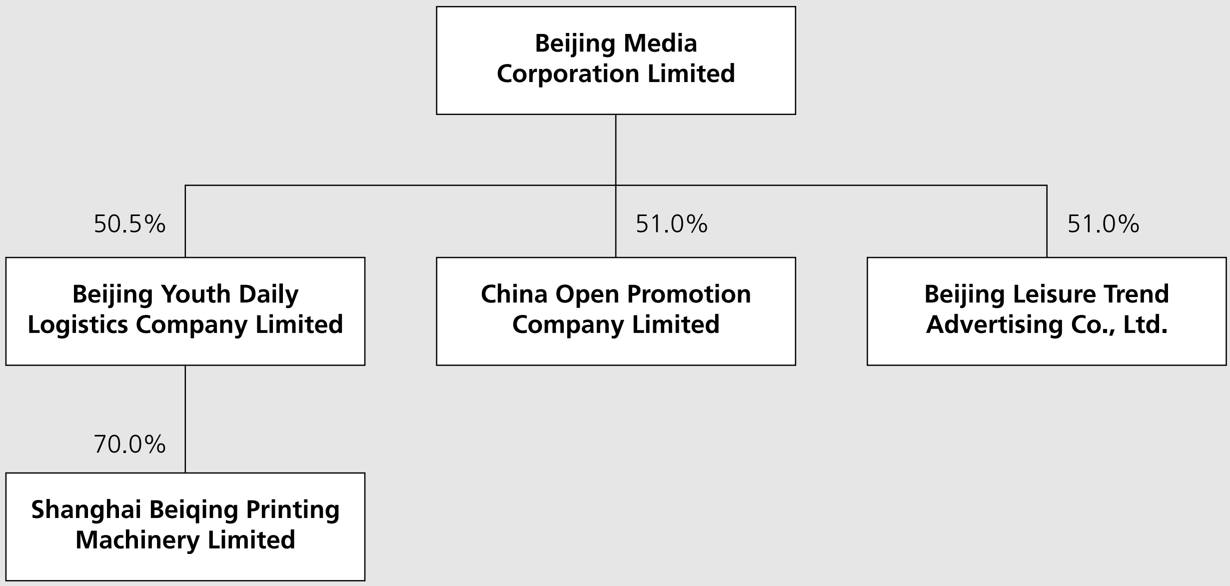
## Company Profile

Beijing Media Corporation Limited (the "Company", together with its subsidiaries, collectively the "Group") is one of the leading media companies in the PRC. The Company's main advertising medium is Beijing Youth Daily ("BYD"). According to the data obtained from 北京慧聰國際資訊有限公司 ("Beijing Hui Cong International Information Co. Ltd.") BYD's advertising revenue calculated based on the standard unit fee per rate card ranked the second in Beijing and third in the PRC as at the end of 2005. Other core businesses of the Group include the production of newspapers, trading of print-related materials and organization of large events. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 December 2004.

## Company Structure




## Stock Information

- Stock Code: 1000
- Board Lot: 500 shares
- Number of Shares Issued (as at 31 December 2005): 197,310,000
- Market Value (as at 31 December 2005): HK$2.1 billion
- Financial Year End: 31 December
- Bloomberg's Stock Machine Search Code: 1000 HK Equity
- Reuters Stock Machine Search Code: 1000. HK

## Company Information

**Executive Directors**
Zhang Yanping *(Chairman)*
Zhang Yabin
Sun Wei (President)
He Pingping
Du Min

**Non-executive Directors**
Liu Han
Xu Xun
Johannes Louw Malherbe

**Independent Non-executive Directors**
Tsang Hing Lun
Wu Changqi
Liao Li

**Company Secretary**
Lau Wing Kee

**Audit Committee**
Tsang Hing Lun
Wu Changqi
Liu Han

**Authroised Representatives**
Sun Wei
Du Min

**Alternative Authorised Representatives**
Lau Wing Kee
Tsang Hing Lun

**Registered Office**
Building A, No. 23 Baijiazhuang Dongli, Chaoyang District, Beijing, PRC

**Principal Place of Business in Hong Kong**
24/F, Prince's Building, Central, Hong Kong

**Legal Advisers**
On Hong Kong Law
Herbert Smith
23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong

**Auditors**
PricewaterhouseCoopers
22nd Floor, Prince's Building, Central, Hong Kong

**Hong Kong Share Registrar**
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

**Investor and Media Relation Advisor**
IPR Ogilvy LTD
Rooms 805 to 809, 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong

*Dear Shareholders,*

On behalf of Beijing Media Corporation Limited ("Beijing Media" or the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the report on results of the Group for the year 2005.

2005 was a difficult and challenging year for the Group. During the year, the PRC advertisement sector recorded an overall slowdown in growth as a result of the sluggish PRC real estate market and delay in project approval and sales activities. As such, advertising revenue, the primary income stream of Beijing Media's core business, fell substantially with advertising revenue related to the real estate sector falling the most. Advertising revenue of the Company for 2005 was approximately RMB590,203,000, down by approximately 34.3% from 2004.

The Group is principally engaged in sales of advertising space, printing and production of newspapers and trading of print-related materials. The Group's principal advertising medium is the Beijing Youth Daily Agency ("BYDA") Papers, including "Beijing Youth Daily", the second biggest newspaper in Beijing in terms of advertising revenue calculated based on the standard fee unit per rate card in Beijing in 2005 according to the data obtainal from北京慧聰國際資訊有限公司("Beijing Hui Cong International Information Co. Ltd.").

Turnover of the Group for 2005 was approximately RMB857,607,000, representing a decrease of approximately 28.0% compared with that in 2004. Profit attributable to equity holders of the Company for the year was approximately RMB10,087,000, approximately 94.8% down from 2004. Earnings per share was approximately RMB0.05. The Board (the "Board") of Directors (the "Directors") of the Company recommended a final dividend of RMB0.25 per share.

The Company made announcements on 3, 12 and 17 October 2005 in respect of the detention of and allegations of bribery or corruption against six employees of the Company by the Prosecution Office of the Beijing Dongcheng District and the Second Prosecution Branch Office of the Beijing City, the PRC. An independent financial advisor has been engaged to conduct an internal investigation on the possible financial impact of this incident on the Company's financial statements. The investigation report of the independent financial advisor was issued on 18 April 2006 and, upon review by the Audit Committee and approval by the Board of the Company, the investigation findings are expected to be announced shortly. The Company believes that the allegations against the six employees has no significant effect on the overall financial statements of the Company.

In September 2005, the Group organised the second China Open Tennis Tournament (the "China Open") in Beijing, which attracted world-renowned tennis players such as Juan Ferrero, the Williams sisters and Maria Sharapova. The 16-day tournament attracted an audience of approximately 210,000. Financial performance of the 2004 and 2005 China Open Tournament was poorer than had been anticipated. An announcement was released by the Group on 20 March 2006 setting out details of the new arrangement and agreement between the Group and its partners of the China Open. We believe that the new arrangement and agreement will represent an effective and efficient platform for COL to organise the future China Open tennis tournament and will provide better return to the Group. Given its two years of experience in organising the tournament, the Group is confident in the successful organisation of the China Open 2006. Spectator sports are attracting an increasing amount of attention in the PRC advertising market, and we are confident that the China Open will establish itself as a major revenue source for the Group.

Leveraging on the Beijing Youth Daily platform, which enjoys a broad readership base, generous support of the Beijing Municipal Government, the right to host the China Open, as well as an experienced and dedicated management team, the Group has grown into one of the major media companies in the PRC. The Company will continue to focus on its current businesses as its core operations, whilst considering selective acquisitions and cooperation to diversify its media business, and to sustain as well as utilize the ongoing relationship between the Group and BYDA, in order to further develop the Company into a leading cross-media company in the PRC.

The performance of the Group in 2005 was the result of the concerted efforts and contributions of the management and staff of each of the business units. The quality of the management team and staff is key to our success in seizing favourable market opportunities. On behalf of the Group's shareholders and other members of the Board, I would like to take this opportunity to express my sincere gratitude to the management and staff of each of the business units.

**Zhang Yanping**
*Chairman*

23 April 2006, Beijing, the PRC



## Business Review

The Group is principally engaged in three core businesses: (1) advertising sales, which contribute the largest portion of the turnover; (2) turnover from printing, which includes revenue generated from the printing of publications arranged by Beijing Youth Daily Logistics Co., Ltd. ("BYD Logistics"); and (3) trading of print-related materials, which involves the supply and trading of, among other things, newsprint, ink, lubricants, films, PS boards and rubber sheets to third parties, including commercial printers.

Total turnover of the Group for 2005 was approximately RMB857,607,000, representing a decrease of approximately 28.0% from 2004. Profit attributable to equity holders of the Company was approximately RMB10,087,000, representing a decrease of approximately 94.8% from 2004.

The recession in overall performance of the Group in 2005 was primarily due to a significant drop in the Group's advertising revenue, particularly that relating to the real estate sector, as a result of the slow-down in the development of the real estate market in the PRC and a delay in project approvals and sales activities of real estate in the PRC, and also due to the poorer than expected financial performance of the second China Open Tennis Tournament.

## Industry Review

In 2005, the overall advertising sector in the PRC slowed down drastically as a consequence of the slow-down in the development of the real estate market in the PRC and a delay in project approvals and sales activities of real estate in the PRC. Many sectors, especially sectors which many major newspaper advertisers come from such as the real estate industry recorded a substantial decrease in their print media advertising expenditures. Geographically, advertising expenditures on most print media in the prime economic regions such as Beijing, Guangzhou, Shanghai and Shenzhen exhibited sluggish growth. The recession in newspaper advertisement was primarily resulted from a substantial decline in the number of advertisements placed by clients in the real estate sector.

Due to the significant decrease in the number of advertisements placed by major clients in the real estate sector in Beijing, the advertising business of the Group encountered serious challenges in 2005. Turnover of the advertising businesses of "Beijing Youth Daily" recorded a year-on-year drop of approximately 34.3% for 2005.

In 2006, the Group will continue to focus on its core business of providing newspaper advertising services. In addition, the Group will also be committed to cross-media platform operations, which include seeking to engage in the business of topic-focused magazines and the development of outdoor advertising business. Moreover, the Group will continue to take full advantage of its established media connections in Beijing to organize large-scale events such as the China Open.

### Advertising Business

For 2005, turnover from advertising sales of the Group amounted to approximately RMB590,203,000, accounting for approximately 68.8% of the total turnover and representing a decrease of approximately 34.3% from 2004. The Group's revenue generated from advertising was mainly attributable to "Beijing Youth Daily". In 2005, due to a slow-down in the development of the real estate market in the PRC and a delay in project approvals and sales activities of real estate in the PRC, revenue from real estate advertising received by "Beijing Youth Daily" decreased by approximately 38.3% from the corresponding period of 2004 to approximately RMB256,347,000. Apart from "Beijing Youth Daily", the Group also publishes other newspapers and magazines, including "Beijing Today", "Beijing Children's Weekly", "Middleschool Times" and "Leisure Trend" magazine.

### Printing Business and Trading of Print-Related Materials

The Group engages in the printing business and trading of print-related materials through BYD Logistics. For 2005, turnover from the printing business and trading of print-related materials amounted to approximately RMB90,494,000 and RMB176,910,000 respectively, representing an increase of approximately 146.6% and 14.9% respectively from 2004.


## Organisation of Large-Scale Events

China Open Promotion Company Limited ("COL"), a jointly controlled joint venture established by the Company, organized the second China Open tournament in 2005, which attracted world-renowned tennis players such as Juan Ferrero, the Williams sisters and Maria Sharapova. The 16-day tournament attracted an audience of approximately 210,000. The China Open was broadcast by TV stations in approximately 38 countries and regions and over 20 central, provincial and municipal TV stations in the PRC, including CCTV-5, with an aggregate airtime of approximately 77,100 minutes.

On 18 March 2006, Media Serv Limited ("MSL"), Media Serv Asia Pacific Limited ("MSAP"), Tom Group Limited ("TOM"), the Company and COL entered into an agreement ("Termination Deed") to terminate all existing agreements and arrangements relating to the organisation of the China Open. On the same date of the Termination Deed, the Company, COL, TOM, Champion Will International Limited ("Champion"), Swidon Enterprises Limited ("Swidon") and Tennis Tournaments Holdings Limited ("TTHL") entered into an authorization agreement (the "Authorization Agreement") regarding the organization of future China Open events. Under the Authorization Agreement, COL will be entitled to all the commercial rights pertaining to the organisation of the China Open, including the right to receive sponsorships, broadcasting fees, ticket sales and related product sales. In consideration, COL will be responsible for the payment of an aggregate ATP and WTA licence fee of US$1,200,000 per year to Champion and Swidon.

The financial performance of the 2004 and 2005 China Open tennis tournaments was poorer than had been anticipated. Moreover, as a result of certain internal management changes in MSL and MSAP, the Company, MSL and MSAP have agreed to change the existing arrangements. The Company believes the Authorisation Agreement will provide for reduced licence fees payable and clarify the Company's and TTHL's obligations in the financing of COL's future funding requirements. The Company also believes the signing of the Authorization Agreement and the Termination Deed will provide an effective and efficient platform for COL to organize future China Open tennis tournaments. Under the Authorization Agreement, COL will no longer exclusively engage other parties to manage the events. The Company expects that the Authorization Agreement will provide for better return to the Company. Neither the Termination Deed nor the Authorization Agreement envisages a change in the shareholding structure of COL.

## Prospects and Future Plans

The Group experienced one of its most difficult periods in 2005 as a result of the slow-down in the development of the real estate market in the PRC and a delay in project approvals and sales activities of real estate in the PRC. Looking forward into 2006, we are of the belief that the PRC advertising industry will maintain a healthy growth. In light of the impending 2008 Olympic Games in Beijing, we expect that opportunities for the advertising business will arise from the anticipated growing demand for advertising services during the preparation and holding period of the 2008 Olympic Games. Adhering to its objective of developing into a successful cross-media enterprise, the Group will continue to diversify its income stream, such as through expansion into operations of new newspapers, topic-focused magazines, outdoor billboards, large-scale events and outdoor advertisements.

Since its listing on the Main Board of the Stock Exchange on 22 December 2004, the Company has been committed to fulfilling its undertakings to its shareholders.

In respect of the development of topic-focused magazines, the Group launched "Leisure Trend", a direct mailing advertising magazine, and "39.2 Degree", a youth magazine, in April 2005 and January 2006 respectively. The Company also plans to launch other topic-focused magazines with market and profit potential in 2006.

As for the newspaper segment, the Company entered into an agreement with 河北青年報社 (Hebei Youth Daily Newspaper Agency) on 13 February 2006 in respect of the establishment of 河青傳媒有限責任公司 (Heqing Media Corporation Limited, "Heqing Media"), which principally involved in the advertising, printing and distribution business of 河北青年報 ("Hebei Youth Daily"). After considering its intension and expansion plans, the Company will seek to acquire the advertising businesses of "Legal Evening Post" and other publications of Beijing Youth Daily Newspaper Agency ("BYD") as it thinks fit.

The Company is seeking to diversify its income stream by placing outdoor billboards along main roads. Backed by its experience in the organization of large-scale events, the Group will also explore the potential of this business segment.

In addition, the Company has been paying close attention to emerging media such as the Internet and mobile phones, and is studying the feasibility of fusing the contents and technologies of the traditional and new media, so as to further expand its advertising market.

The Company is seeking to establish a more extensive and diversified media platform by the above development plans. Despite a contraction in its revenue for 2005 when compared with the previous year, the Group and its staff as a whole will continue their effort to develop and establish more diversified income stream and build up a cross-media platform for the Group, so as to establish the Group as a leading cross-media corporation in the PRC and maximise the return to shareholders.

Capitalising on the staunch support of the Beijing Municipal Government and the concerted efforts of the staff, the Group will further expand its cross-media platform with the aim of becoming a leading cross-media corporation in the PRC.

## Financial Position and Business Results

### 1. Turnover

Turnover of the Group for 2005 was approximately RMB857,607,000 (2004: RMB1,190,306,000), representing a decrease of approximately 28.0% from 2004. Revenue from advertising dropped by approximately RMB308,640,000 or approximately 34.3%, mainly due to a slow-down in the development of real estate market in the PRC and a delay in project approvals and sales activities of real estate in the PRC. As a result, revenue from real estate advertisements, the Company's major source of income fell. Revenue from printing business increased by about RMB53,802,000, representing an increase of about 146.6% from 2004, while revenue from the trading of print-related materials increased by about RMB22,922,000, representing an increase of about 14.9% from 2004. The Company transferred all business operations of Beijing XiaoHongMao Newspapers and Periodicals Distribution Services Co., Ltd. and Media Online, Beijing Youth Daily ("BYD Net") to Xiaohongmao Corporation and BYD (the "ultimate holding company") respectively on 31 August 2004. As such, the Company did not record any related distribution and other revenue for 2005 (2004: RMB100,783,000).

### 2. Cost of Sales and Operating Expenses

The Group's cost of sales for 2005 was approximately RMB762,126,000 (2004: RMB848,059,000), representing a decrease of about 10.1% from 2004. Operating expenses were approximately RMB48,362,000 (2004: RMB102,122,000), representing a decrease of approximately 52.6% from 2004. Operating expenses represented about 5.6% (2004: 8.6%) of the Group's turnover for 2005, comprising mainly sales and distribution expenses and administrative expenses.

In view of the decrease in advertising revenue resulting primarily from adverse market conditions, the Company has implemented active cost control and savings policies and measures. Costs and expenses relating to advertising revenue for 2005 decreased by approximately RMB148,242,000, representing a decrease of approximately 20.8%, from 2004. Due to the increase in volume of printing activities, costs and expenses relating to printing revenue increased by approximately RMB60,768,000, representing an increase of approximately 342.3%, from 2004. Due to the increase in volume of trading of print-related materials activities, costs and expenses relating to the trading of print-related materials increased by approximately RMB22,884,000, representing an increase of approximately 15.9%, from 2004. Costs and expenses relating to distribution and other operations decreased by approximately RMB75,103,000, representing a decrease of 100%, from 2004.

### 3. Gross Profit

For 2005, the Group's gross profit amounted to approximately RMB95,481,000 (2004: RMB342,247,000), representing a decrease of approximately 72.1% from 2004. Gross profit margin decreased to 11.1% (2004: 28.8%).

### 4. Profit Attributable to Equity Holders of the Company

For 2005, the profit attributable to equity holders of the Company was about RMB10,087,000 (2004: RMB194,180,000), representing a decrease of about 94.8% from 2004.

### 5. Final Dividend

The Board of Directors of the Company recommends the distribution of a final dividend of RMB0.25 per share (2004: RMB0.39 per share).

**6. Non-current Assets**

As at 31 December 2005, the non-current assets of the Group amounted to approximately negative RMB14,016,000 (31 December 2004: RMB21,849,000) which mainly comprised of fixed assets, prepayment for land use rights, and intangible assets of approximately RMB16,836,000 (31 December 2004: RMB18,130,000), RMB33,202,000 (31 December 2004: RMB34,087,000), and RMB5,387,000 (31 December 2004: RMB5,306,000) respectively. Share of net liabilities of a jointly controlled entity amounted to approximately RMB71,510,000 (31 December 2004: RMB37,743,000) and available-for-sale financial assets amounted to approximately RMB2,069,000 (31 December 2004: RMB2,069,000) are also included.

**7. Net Current Assets**

As at 31 December 2005, the Group's net current assets amounted to approximately RMB1,347,194,000 (31 December 2004: RMB1,376,922,000). Current assets mainly comprised of cash and cash equivalents of approximately RMB284,733,000 (31 December 2004: RMB1,308,107,000), short-term bank deposits of approximately RMB1,073,933,000 (31 December 2004: RMB43,030,000), restricted bank deposits of approximately RMB56,000,000 (31 December 2004: RMB56,000,000), inventory of approximately RMB59,998,000 (31 December 2004: RMB54,623,000) as well as trade receivables and other receivables, prepayments and deposits of approximately RMB129,117,000 (31 December 2004: RMB170,241,000). Current liabilities mainly comprised of unsecured short-term bank loan of approximately RMB20,000,000 (31 December 2004: RMB10,000,000), trade payables, other payables and accruals of approximately RMB65,525,000 (31 December 2004: RMB54,833,000) and RMB157,919,000 (31 December 2004: RMB177,577,000) respectively, and taxation payable of approximately RMB5,123,000 (31 December 2004: RMB9,929,000).

## Liquidity and Financial Resources

As at 31 December 2005, the Group maintained a stable cash flow. The Group's cash and cash equivalents and short-term bank deposits were totaling approximately RMB1,358,666,000 (31 December 2004: RMB1,351,137,000). The debt-to-equity ratio, defined as a percentage of net interest-bearing borrowings over capital and reserves attributable to the Company's equity holders, was approximately 1.5% (31 December 2004: 0.7%) as at 31 December 2005.

## Equity-to-debt Ratio

As at 31 December 2005, the Group's equity-to-debt ratio was 519.6% (31 December 2004 to 535.2%). (Ratio derived from dividing the Group's total equity by its total liabilities).

## Taxation

For the year ended 31 December 2005, the Group's taxation expenses were approximately RMB7,252,000 (2004: RMB16,734,000), representing a decrease of approximately 56.7%. Owing to the drop in the Group's profit before income tax, the effective tax rate applicable to the Group rose from approximately 7.5% in 2004 to approximately 30.7% in 2005. The taxation authority in the PRC has granted the Company a tax exemption of five years effective from 1 January 2004.

## Bank Borrowings, Overdrafts and Other Borrowings

As at 31 December 2005, unsecured short-term bank loan amounted to RMB20,000,000 (31 December 2004: RMB10,000,000), which bears an interest of 5.58% p.a. (2004: 5.31% p.a.) and is repayable within one year.

## Finance Costs

Finance costs of the Group for 2005 were approximately RMB21,021,000 (2004: RMB2,894,000), including exchange losses of approximately RMB20,272,000 (2004: Nil).

## Latest Business Development in 2005

In May 2005, the Company invested RMB2,550,000 to acquire 51% of the equity interests in Beijing Leisure Trend Advertising Company ("Beijing Leisure Trend"), a company principally engaged in the publication and distribution of a direct mailing advertising magazine entitled "Leisure Trend" targeting higher-income readers. Leisure Trend's advertisers mainly comprise property developers, high-end consumer goods merchants and financial institutions, etc.

## Use of Proceeds from Listing

The Company raised total net proceeds of about HK$889,086,000 from the Global Offering in 2004. The following table sets forth a breakdown of the proposed use of proceeds as disclosed in the Prospectus of the Company and the actual use of proceeds as at 31 December 2005:

| **Proposed Use of Proceeds** | **Amounts Proposed to be Used** *HK$* | **Actual Amounts Used** *HK$* |
|---|---|---|
| Developing weekend newspapers | Approximately 100 million | not used |
| Developing a number of topic-focused magazines on personal wealth management, lifestyle and cultural activities | Approximately 80 million | Approximately 2.383 million |
| Investing in the television industry in Beijing | Approximately 250 million | not used |
| Acquisition of other media businesses | Approximately 275 million | not used |
| General working capital | Approximately 73 million | not used |

As at 31 December 2005, a substantial part of the proceeds of the Company had not been utilized due to the following reasons:

- The preparation period for developing weekend newspapers and topic-focused magazines is longer than expected. In addition, the Company adopts a prudent investment strategy, and will not make hasty investment without the support of sufficient market conditions.

- The PRC government has tightened the limitation on the participation of foreign enterprises in the television broadcasting industry, and slowed down the development of the Company in such industry;

- The Company has spent considerable time on negotiation concerning a number of acquisitions because media industries, particularly newspapers and other media, are sensitive industries and are subject to many limitations imposed by the relevant authorities in the PRC.

Nevertheless, during 2005, the Company strived to seek opportunities to fulfill the objectives set forth in its Prospectus. The Company believes that the proceeds will be utilized for business development in 2006.

## Capital Structure

| | Number of Shares | Percentage |
|---|---|---|
| Total Share Capital | 197,310,000 | 100% |
| Holders of Domestic Shares | 142,409,000 | 72.18% |
| BYD | 124,839,974 | 63.27% |
| Beijing Zhijin Science and Technology Investment Co., Ltd. | 7,367,000 | 3.73% |
| China Telecommunication Broadcast Satellite Corp. | 4,263,117 | 2.16% |
| Beijing Development Area Ltd. | 2,986,109 | 1.52% |
| Sino Television Co., Ltd. | 2,952,800 | 1.50% |
| H Shares in issue | 54,901,000 | 27.82% |
| Including: MIH Print Media Holdings Limited | 19,533,000 | 9.90% |

## Investigation Findings of the Independent Financial Advisor

The Company made announcements on 3, 12 and 17 October 2005 in respect of the detention of and allegations of bribery or corruption against six employees of the Company by the Prosecution Office of the Beijing Dongcheng District and the Second Prosecution Branch Office of the Beijing City, the PRC. An independent financial advisor, Ernst & Young Transactions Limited, has been engaged to conduct internal investigation on the possible financial impact of this incident on the Company. The investigation report of the independent financial advisor was issued on 18 April 2006. Upon review by the Audit Committee and approval by the Board of the Company, the investigation findings are expected to be announced shortly. The Company believes that the allegations against the six employees has no significant effect on the overall financial statements of the Company.

## Capital Expenditures

Capital expenditures of the Group for 2005 including expenditures on office equipment were approximately RMB1,500,000. The Group expects capital expenditure in 2006 to primarily consist of expenditure consistent with our business strategies.

## Contingent Liabilities and Pledge of Assets

| | As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Guarantee for bank loans of a jointly controlled entity | **56,000** | 72,553 |

On 11 August 2005, the Company entered into an extended pledge agreement with China Minsheng Banking Corporation Limited, pursuant to which the Company pledged fixed-term deposits in the sum of RMB56,000,000 as a security over a loan facility of US$6,000,000, or RMB equivalent, granted to COL by China Minsheng Banking Corporation Limited.

The Company entered into a guarantee agreement in favour of Media Serv Limited in respect of COL's performance of the obligations under the co-operation agreement entered into between COL and Media Serv Limited and other borrowings of COL.

The management anticipates that no material liability will arise from the above guarantee which arose in the ordinary course of business.

## Foreign Exchange Risks

Substantially all of the Group's revenues and operating costs were denominated in RMB. As the proceeds from the new issue of shares in December 2004 were received in Hong Kong dollars, the Group has exposed to foreign currency risk as a substantial portion of cash and cash equivalents are denominated in Hong Kong dollars. As at 31 December 2005, the Group had unrealized exchange loss of approximately RMB20,272,000 (2004: Nil). The Group's operating cash flow or liquidity is not subject to any exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements as at 31 December 2005.

The Company will closely monitor its exposure arising from changes in exchange rate.

## Staff

As at 31 December 2005, the Group had a total of 159 staff, whose remuneration and benefits are determined based on market rates, State policies and individual performance.

## Disclosure of Shareholding Interests of Directors, Supervisors and Executive President

After thorough enquiries of the Directors of the Company, the Company believes that, as at 31 December 2005, none of the Directors, Supervisors, Executive President or senior management of the Company has any shareholding interests in the Company.

## Compliance with the "Model Code for Securities Transactions by Directors"

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules regarding security transactions by Directors. Shareholders should accordingly note that the Company has not adopted the distinct code as the Company's preliminary results announcement suggests. After a specific enquiry made by the Company, all Directors confirmed they have complied with the required standard set out in the Model Code.

## Purchase, Sale or Redemption of Listed Securities of the Company

During the period from 22 December 2004, the listing date, to the date of this annual report, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

## Change of Board Members

On 15 June 2005, Mr. Johannes Louw Malberbe was appointed as a non-executive director of the Company as approved by a resolution of the shareholders at general meeting.

## Exemption from Compliance with Listing Rules

Save as disclosed in the Prospectus, the Company has not been granted any exemption from compliance with any Listing Rules.

## Audit Committee

Pursuant to the requirements of the Listing Rules, the Company has set up an Audit Committee to review, supervise and regulate the financial reporting process and internal controls of the Group. The Audit Committee comprises two independent non-executive Directors and one non-executive Director.

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group with the management of the Company. In addition, the Audit Committee has discussed with the Directors matters concerning the internal controls and financial reporting of the Company, including a review of the consolidated financial statements of the Group for the year ended 31 December 2005.

## Executive Directors

ZHANG Yanping, 48, is the Chairman of the Company and an executive Director. He graduated in 1988 from the Renmin University of China with a bachelor's degree in journalism. Mr. Zhang completed his military service with Division No. 4 of Beijing Garrison Command (北京衛戍區警衛四師) from December 1976 to June 1980. He then joined Beijing People's Radio (北京人民廣播電台) as a trainee from June 1980 to April 1981. He joined BYD in November 1981 and has gained nearly 25 years of experience in the media business and has acted in a number of different positions such as a reporter, director, editing committee member, deputy chief editor, standing deputy chief editor and chief editor of BYD. Mr. Zhang is currently the president of the BYD. Mr. Zhang was appointed as a Director on 16 May 2001.

ZHANG Yabin, 49, is a Vice Chairman of the Company and an executive Director. Mr. Zhang is currently the chief editor of BYD. He graduated in 1982 from the Peking University with a bachelor's degree in journalism and graduated in 2005 from EMBA Programme at Cheung Kong Graduate School of Business. He was a reporter and an editor of the political and legal department of Beijing Daily News Press (北京日報社) from February 1982 to June 1992. He became the deputy director of the chief editorial department of Beijing Daily News Press from July 1992 and then became the director of the external relationship department of Beijing Daily News Press starting from March 1996. In April 1999, Mr. Zhang started to serve as the chief editor of Morning Post Press (北京晨報社). He joined BYD in April 2002 as the chief editor. Mr. Zhang was appointed as a Director on 30 December 2002.

SUN Wei, 52, is the President of the Company and an executive Director. He graduated in 1994 from the China Communist Party Central School in economics and administration and studied in a course leading to a postgraduate degree in journalism in Remin University of China from 1996 to 1998. He joined BYD in October 1983 and has gained experience as a reporter, editor, deputy director, director, editing committee member and deputy chief editor. Mr. Sun was the executive deputy chief editor of BYD. He is currently the vice president of Beijing Youth Fictionist Association (北京青年創業者協會). Mr. Sun was appointed as a Director on 23 August 2004.

HE Pingping, 51, is an executive Director. Mr. He graduated in 1987 from the Capital Normal Academy (北京師範學院) in politics and education. He was in charge of the Youth Communist League Committee of Beijing Cotton Textile Dyeing Company Limited (北京棉紡織印染公司) from October 1983 to January 1985. Starting from March 1987, he became the vice president of the Propaganda Division of the Beijing Municipal Committee of China Communist Youth League (共青團北京市委宣傳部). From January 1990 to February 1991, he served as the vice president of the Beijing Youth Service Center (北京青少年服務中心). He then became the deputy chief editor and vice president of Beijing Youth Audio-visual Press (北京青少年音像出版社) in February 1991 before joining BYD as deputy chief editor in March 1993. He was appointed as a Director on 16 May 2001.

DU Min, 38, is an executive Director and the executive vice president of the Company. He graduated in 1991 from Renmin University of China with a bachelor's degree in law. Mr. Du has acted in a number of different positions such as editor, reporter and department head of China Business Times from July 1991 to July 1995. He became the vice president and the deputy chief editor of China Business starting from August 1995. In September 1998, he joined the America International Data Group's branch in China (美國國際數據集團中國公司) as a vice president. He then served as the vice president of Shanghai Meining Computer Software Company Limited (上海美寧計算機軟件有限公司) from July 2000 to September 2002 before becoming the general manager of our Company in December 2002. Mr. Du was appointed as a Director on 30 December 2002.

## Non-executive Directors

LIU Han, 47, is a non-executive Director. Mr. Liu is currently the vice president of BYD. He graduated in 1982 from Capital Normal Academy (北京師範學院) in Chinese literature. He became a teacher of the No. 1 Secondary School of Fengtai, Beijing (北京豐台一中) from September 1982 to December 1985. Mr. Liu served as an officer of Beijing Fengtai Bureau of Education (北京豐台教育局) from December 1985 to June 1986. He joined BYD in July 1986 as reporter, and subsequently, deputy head of the editorial department. He had also been the editor-in-chief, assistant to the president and the president of Middleschool Times. Mr. Liu was appointed as a Director on 16 May 2001.

XU Xun, 50, is a non-executive Director. He graduated in 1998 from the Postgraduate School of the Chinese Academy of Social Sciences (中國社會科學院研究生院) with a master's degree in finance. Mr. Xu served as an editor and reporter of Capital Economic Information Daily (首都經濟信息報) from 1990 to 1993. He was the general manager of Beijing Hua Ren Advertising Company Limited (北京華人廣告公司) in 1993. He became the deputy general manager of Chinese Securities Daily (中國證券報) from November 1994 to February 2000. Thereafter, he worked in Beijing Zhijin Science and Technology Investment Co., Ltd. as the deputy general manager from March 2000 to March 2002. He has worked with Beijing Management Department of Yongjin Group as General Manager from March 2002 till now. Mr. Xu was appointed as a Director on 16 May 2001.

Johannes Louw MALHERBE, 58, is a non-executive Director. Mr. Malherbe graduated from the Business School of University of Stellenbosch in South Africa with a master's degree in business. He joined Naspers Group as human resources manager in 1983. In 1990, Mr. Malherbe was appointed general manager of Beeld, a daily newspaper in a northern province of South Africa. He became the regional general manager of Northern Newspapers in 1996 and, subsequently, the chief executive officer and executive director of Media 24 Newspapers in 1998. He has been a council member of South Africa Press Association since 1990. Mr. Malherbe was appointed as a Director on 15 June 2005.

## Independent Non-executive Directors

TSANG Hing Lun, 57, is an independent non-executive Director. Mr. Tsang is the Chief Executive Officer of Influential Consultants Ltd. He is also Fellow Members of Hong Kong Institute of Directors, the Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Tsang graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration (1st Class Hons.) in 1973. Mr. Tsang has served in the senior management capacity in several reputable publicly listed companies operating in Hong Kong and Singapore. Mr. Tsang joined the Hang Seng Bank Group in 1973 and had served in the group for 17 years. He acted as the assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its Head of International Branches Division and First Vice President. After working in the UOB Group, Mr Tsang has also acted as an executive president of the Stock Exchange of Hong Kong in 1993 and the Director of the Board of China Champ Group in 1994, as an alternate chief executive and deputy general manager of the China Construction Bank, Hong Kong Branch from 1995 to 1998. Mr Tsang has also acted as an executive director of DigiTel Group Limited, a company listed on the GEM Board of the Stock Exchange. Mr. Tsang was appointed as a Director on 12 November 2004.

WU Changqi, 51, is an independent non-executive Director. He graduated in 1982 from Shandong University (山東大學) with a bachelor's degree in economics. He obtained a master's degree in business administration and a doctoral degree in applied economics from Katholieke Universiteit Leuven (魯漢天主教大學) in Belgium in 1986 and 1990, respectively. He has also been a lecturer and an assistant professor in Economics of The Hong Kong University of Science and Technology respectively in 1991 and 1997. He has been the professor and the president of the Faculty of Strategic Management of the Guanghua School of Management of Peking University since 2001, the president of the EMBA Centre of the Guanghua School of Management of Peking University from 2002 and the associate dean of the Guanghua School of Management of Peking University from 2003. Mr. Wu was appointed as a Director on 23 August 2004.

LIAO Li, 40, is an independent non-executive Director. He is currently the deputy president and the professor in finance of the School of Economics and Management of Tsinghua University. Mr. Liao graduated in 1989 from the Department of Electrical Engineering of Tsinghua University with a bachelor's degree in mechanical engineering and automation profession. He obtained a doctoral degree in technical economics from the School of Economics and Management of Tsinghua University in 1995. In 1999, he graduated from the Sloan School of Management of Massachusetts Institute of Technology with a master's degree in business administration. Mr. Liao was a lecturer of the School of Economics and Management of Tsinghua University from 1995 to 1997. Starting from 2001, Mr. Liao became the deputy president and the deputy professor in finance of the School of Economics and Management of Tsinghua University and became a professor in 2004. Mr. Liao was appointed as a Director on 23 August 2004.

## Supervisors

LI Shiheng, 46, is a supervisor of the Company. Mr. Li is currently the vice president of BYD and the deputy secretary of the Party Committee. Mr. Li graduated in 1997 from the China Communist Party School in politics and law. Starting from May 1990, he became the leader and the deputy secretary of the Communist Youth League of Fengtai District Committee of Beijing (北京共青團豐台區委共青團青工部). He became the deputy secretary of the Communist Youth League Committee of Fengtai District of Beijing in May 1991. He became the deputy leader of the Committee of the urban region of Beijing (北京團市委城區部) from March 1993, before he became the vice president of BYD in September 1998.

HE Daguang, 48, is a supervisor of the Company. He graduated from Shaanxi College of Finance and Economy in 1983 specialising in financial management for industrial enterprises. From 1983 to 2001, Mr. He had, amongst other positions, served as a deputy head of a division, head of a division, vice chief accountant, deputy chief accountant and executive director of China International Water and Electric Corporation. Mr. He has been the PRC chief financial officer of Phoenix Satellite Television Company Limited since 2001.

ZHU Yaoting, 64, is a supervisor of the Company. He graduated from Shanghai Marine Transportation Institute (上海海運學院) in 1963 in mathematics. He had, among other positions, served as deputy director of a division of the Financial Bureau of the Ministry of Communications, vice director of the Auditing Bureau of the Ministry of Communications, vice director of the Financial Bureau of the Ministry of Communications, director of the Financial and Accounting Bureau of the Ministry of Communications and general manager of Huajian Transportation Economic Development Center prior to his retirement. He currently serves as an independent director of CRBC International Co., Ltd. and the general vice president of the China Communications Accounting Commission.

LIU Yanfeng, 34, is a supervisor of the Company. He graduated from the Central Communist Party School in December 2003 specialising in economics and management. Mr. Liu had, amongst other positions, served as the deputy director of the laser phototypesetting office of BYD from September 1991 to April 2001. Mr. Liu currently serves as the deputy director of the laser phototypesetting centre of our Company since May 2001.

ZHOU Fumin, 35, is a supervisor of the Company. He graduated from the department of materials science and engineering of Tsinghua University in 1995 with a bachelor degree in engineering science and graduated from School of Law of Tsinghua University in 1998 with a master degree in law.

## Senior Management, Qualified Accountant and Company Secretary

LAU Wing Kee, 42, is the chief financial officer and the company secretary of the Company. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau worked for PricewaterhouseCoopers as an auditor in its Hong Kong, Beijing and Shanghai offices for approximately 10 years from 1990 to 2000. Before joining our Group, Mr. Lau was the finance director of Shanghai Ogilvy & Mather Advertising Co, Ltd. Beijing branch. Mr. Lau is the qualified accountant of the Company for the purpose of Rule 3.24 of the Listing Rules. Mr. Lau joined the Group on 1 November 2004.

LIU Xiaofei, 45, member of the advertising division of the Company. Mr. Liu served as a reporter for the overseas edition of People's Daily from 1985 to 1987. He worked for BYD from 1987 to 2002 and assumed various positions, including reporter of the news department, deputy head of the external affairs department, officer of Social and Education Department, deputy chief editor of weekly magazine Beijing Youth ("北京青年"), deputy director of the News Research Institute, head of Beijing Art Institution ("北京藝術社") and general manager of Bei Yi Advertising Company ("北藝廣告公司"). From October 2002 to October 2004, Mr. Liu served the Company as deputy head of advertising department. He rejoined BYD from November 2004 to September 2005 as deputy office director. In October 2005, he returned to the Company and was assigned to the advertising division by the Company.

SHANG Da, 44, is a secretary to the Board. Mr. Shang graduated from Capital Economic and Trade University (首都經濟貿易大學). He joined BYD in 1999 and served as the secretary to the Board of the Company since 28 May 2001.

YAN Mengmeng, 42, is a director of the laser phototypesetting centre of the Company. She was awarded a postgraduate certificate in business management from the Capital Economic and Trade University. From June 1983 to June 1991, she worked as a secretary of the Office of the China Electronic Press Association (中國電子新聞工作者協會) and became a secretary of the Office of the Exhibition and Design Association (展示設計協會) under the China Electronic Press Association. Starting from June 1991, she joined BYD as a coordinator of its laser phototypesetting office and was promoted to deputy director and then director of the laser phototypesetting office of BYD in June 1992 and March 1993 respectively. She was transferred from BYD to the Company as the head of laser phototypesetting centre in May 2001.

The Board is pleased to present the annual report and audited financial statements for the year ended 31 December 2005.

## Issue and Listing of Shares

The Company's H Shares were listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 22 December 2004. Under the Hong Kong Public Offering and International Placing, 54,901,000 shares (including 7,161,000 over-allotment shares) were issued at an offer price of HK$18.95 per share.

The highest and lowest trading prices of the Company's H shares were HK$22.70 and HK$8.9 respectively up to 31 December 2005. The trading volume and closing price as at 31 December 2005 were 93,500 H Shares and HK$10.65, respectively.

## Accounts

Results of the Group for the year ended 31 December 2005 are set out in page 47 of the consolidated profit and loss account.

Financial positions of the Group as at 31 December 2005 are set out in page 48 and 49 of the consolidated balance sheet.

Cash flows of the Group for the year ended 31 December 2005 is set out in page 52 of consolidated cash flow statement.

The Directors proposed a final dividend of RMB0.25 per ordinary share to the shareholders on the register of members on 27 May 2005, amounting to approximately RMB49,327,500.

## Principal Activities

The Group is principally engaged in the sales of advertising space, production of newspapers and trading of print-related materials, and organization of large events. Details of activities of the Company's principal subsidiaries are set out in note 17 to the financial statements.

## Major Suppliers and Customers

For the year ended 31 December 2005, the total purchase by the Group from its five largest suppliers amounted to RMB250,961,546, representing 32.9% of its total purchase for the year. Purchase from the largest supplier amounted to RMB65,768,926, representing 8.6% of its total purchase for the year.

For the year ended 31 December 2005, the total sales by the Group to its five largest customers amounted to RMB231,287,661, representing 27.0% of its total sales for the year. Sales to the largest customer amounted to RMB73,267,501, representing 8.5% of its total sales for the year.

As far as the Directors are aware, none of the Directors, their associates and shareholders who are interested in more than 5% of the Group's share capital has any interest in the Group's five largest suppliers or five largest customers.

## Subsidiary and jointly controlled entity

As at 31 December 2005, the Company had three subsidiaries, namely Beijing Youth Daily Logistics Company Limited, Shanghai Beiqing Printing Machinery Limited and Beijing Leisure Trend Advertising Co., Ltd. and a jointly controlled entity, namely China Open Promotion Company Limited.

For details of principal subsidiaries and jointly controlled entity of the Company, please refer to note 16 and 17 to financial statements in this annual report.

## Profit Distribution

For details of profit distribution, please refer to note 29 to the financial statements in this annual report.

## Reserves

The movements in reserves during the year are set out in note 29 to the financial statements for the year.

## Distributable Reserves

For details of the distributable reserves, please refer to note 29 to the financial statements in this annual report.

## Properties and Equipment

The movements in properties and equipment are set out in note 14 to the financial statements for the year.

## Share Capital, Share Capital Structure and Number of Shareholders

As at 31 December 2005, the total number of shares issued by the Company was 197,310,000 Shares. The shareholders of the Company include BYD, Beijing Zhijin Science and Technology Investment Company Limited, China Telecommunication Broadcast Satellite Corporation, Beijing Development Area Limited, Sino Television Company Limited and public shareholders of H Shares, holding 124,839,974 shares, 7,367,000 shares, 4,263,117 shares, 2,986,109 shares, 2,952,800 shares and 54,901,000 H shares respectively, representing 63.27%, 3.73%, 2.16%, 1.52%, 1.50%, and 27.82%, respectively, of the Company's entire share capital.

| Class of shares held | Number of issued shares | Percentage | Number of shareholders* |
|---|---|---|---|
| Domestic shares | 142,409,000 | 72.18% | 5 |
| Foreign shares (comprising H shares) | 54,901,000 | 27.82% | 600 |
| Total | 197,310,000 | 100% | 605 |

* *The above percentage figures are based on the records in the Company's register of shareholders as at 31 December 2005.*

Changes of the Company's share capital are set out in note 28 to the financial statements for the year.

## Interests of Principal Shareholders in Shares and Underlying Shares

As at 31 December 2005, shareholders holding 5% or more of the issued share capital of the Company, as recorded in the register of shareholder's interest in shares required to be maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO"), are set forth below:

| Name | Number of shares | Percentage of share capital |
|---|---|---|
| BYD | 124,839,974 (domestic shares) | 63.27% |
| MIH Print Media Holdings Limited | 19,533,000 (H shares) | 9.9% |

Save as disclosed above, no person has registered to hold interests or short positions of our Shares or Underlying Shares which would fall to be recorded in the register under Section 336 of the SFO.

## Ultimate Controlling Shareholder

BYD is the ultimate controlling shareholder of the Company. Following completion of the global offering, taking into account the exercise of the over-allotment option, BYD is interested in 63.27% of the Company's equity.

## Directors

During the year and up to date of this report, the names of Directors and their respective dates of appointment are listed as follows:

| **Executive Directors** | **Date of Appointment** |
|---|---|
| ZHANG Yanping | 16 May 2001 |
| ZHANG Yabin | 30 December 2002 |
| SUN Wei | 23 August 2004 |
| HE Pingping | 16 May 2001 |
| DU Min | 30 December 2002 |
| **Non-executive Directors** | |
| LIU Han | 16 May 2001 |
| XU Xun | 16 May 2001 |
| Johannes Louw MALHERBE | 15 June 2005 |
| **Independent Non-executive Directors** | |
| TSANG Hing Lun | 12 November 2004 |
| WU Changqi | 23 August 2004 |
| LIAO Li | 23 August 2004 |

## Directors' and Supervisors' Service Contracts

Each of the Directors (other than Johannes Louw Malherbe) and Supervisors has entered into service contracts with the Company on 4 December 2004 for a term of three years. Johannes Louw Malherbe entered into a service contract with the Company on 17 June 2005 which term will expire on 22 August 2007.

None of the Directors or Supervisors has entered into any service contract with the Company which cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).

## Directors' and Supervisors' Interests in Shares and Underlying Shares

As at 31 December 2005, none of the Directors, Supervisors or their respective associates had any interest in the shares or debts securities of the Company or any associated corporations which would fall to be notified to the Company and the Stock Exchange under Section 352 of SFO or be recorded in the register required under the Section, or fall to be disclosed to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies.

## Directors' and Supervisors' Interest in Contracts

The Company and its subsidiaries have not entered into any contracts of significance to the business of the Company in which any Director or Supervisor had material interests as at the balance sheet date or at any time during the year.

## Directors' and Supervisors' Benefits in Acquiring Shares or Debts

As at the balance sheet date or any time during the year, neither the Company nor its subsidiaries was a party to any arrangement through which Directors or Supervisors may acquire shares or debentures of the Company or any other companies.

## Emoluments of Directors and Supervisors

Details of the emoluments of Directors and Supervisors are set out in note 13 of the financial statements.

None of the Directors and Supervisors has waived emoluments during the year ended 31 December 2005.

## Purchase, Sale and Redemption of the Listed Securities of the Company

During the year, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

## Pre-emptive Right

There is no provision for pre-emptive rights under the PRC law and the Company's Articles of Association, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Bank Loans, Overdrafts and Other Borrowings

Details of the borrowings of the Company and its subsidiaries are set out in note 27 and 30 to the financial statements in this annual report.

## Connected Transactions

Connected transactions of the Group during the year are listed as follows:

## Transactions

**1 Sharing of Administrative Services and Offices agreement (the "Shared Services Agreement")**

On 7 December 2004, the Company and BYD entered into an agreement for the sharing of administrative services, offices and human resources. Under this agreement, the Company and BYD agreed to share the costs of administrative services provided by third parties regarding the Beijing Youth Daily Agency Mansion in Beijing, PRC, where the Company's offices are situated. The fees incurred by the Company under the Shared Services Agreement and any other agreement entered into pursuant to it shall be calculated on a cost reimbursement basis by reference to the floor area the Company owns as a proportion of the total floor area of the Beijing Youth Daily Agency Mansion. For the year ended 31 December 2005, the annual aggregate amount of the above administration transactions was approximately RMB466,060.

**2 Varnishes Supply Agreement**

On 22 March 2002, BYD Logistics and Shanghai Shenglin Printing Machinery Limited, a substantial shareholder of a subsidiary of the Company, Shanghai Beiqing Printing Machinery Limited, entered into an agreement pursuant to which Shanghai Shenglin Printing Machinery Limited agreed to supply to BYD Logistics varnishes for pressing. Under the agreement, BYD Logistics was appointed as the exclusive distributor of the varnishes in Beijing and for the printing houses of the Beijing Youth Daily.

For the year ended 31 December 2005, the aggregate annual consideration paid by BYD Logistics to Shanghai Shenglin Printing Machinery Limited was approximately RMB924,000.

**3 Today YangGuang Advertising Agreement**

On 8 December 2004, the Company and Today Sunshine Advertising Co., Ltd ("Today YangGuang") entered into an advertising sales agreement pursuant to which the Company agreed to sell advertising space in the Beijing Youth Daily to Today YangGuang.

Pursuant to the Today YangGuang advertising agreement, the Company or any of its subsidiaries may only accept the booking of advertising space by Today YangGuang on the basis that the fees payable under the Today YangGuang advertising agreement are settled on normal commercial terms, which represent terms available to a party on an arm's length basis or terms no less favourable to the Company than those available to or from independent third parties.

For the year ended 31 December 2005, sales fees paid by Today YangGuang to the Company were approximately RMB108,800.

**4 Tenancy Agreement**

On 1 August 2004, the Company and BYD entered into a tenancy agreement (the "Tenancy Agreement") pursuant to which BYD leased from the Company various office premises in the Beijing Youth Daily Agency Mansion amounting to a total floor area of 2,086 sq. m. The duration of the Tenancy Agreement is three years ending on 31 July 2007. Upon expiry of the Tenancy Agreement, BYD has the right to extend the tenancy of the office premises by giving two months' written notice to the Company before the expiry date. The annual rental payable by BYD under the Tenancy Agreement throughout the tenancy will be RMB3,426,255. The annual rental is calculated based on RMB4.50 per sq. m. per day. The rental paid by BYD to the Company for the year ended 31 December 2005 was approximately RMB3,426,255.

5 **Advertising Business Agreement**

On 7 December 2004, an advertisement business and call option agreement (the "Advertising Business Agreement") was entered into between the Company and BYD, pursuant to which BYD has agreed to grant an exclusive right to the Company to operate the Advertising Business in respect of the Beijing Youth Daily, including editions on other media such as the Internet.

Under the Advertising Business Agreement, the Company was granted the exclusive right to operate the Advertisement Business in respect of the BYD Papers for a duration of 30 years from 1 October 2004 to 30 September 2033, which duration will automatically be renewable upon expiry. The right granted includes the right to sell all of the advertising space in the Beijing Youth Daily, and the Company is entitled to all revenue derived from such sales. In consideration, the Company will (a) be responsible for the printing, including printing costs and the choice of newsprint, of the Beijing Youth Daily; (b) pay BYD a fee representing 16.5% of the total advertising revenue generated from the Beijing Youth Daily or such figure or formula as the parties may agree in future and (c) allocate up to 360 pages per year of advertising space in respect of each of the BYD Papers to BYD for publicity announcements and notices (provided that the advertising space allocated will not exceed 9% of the total advertising space of each paper per issue), for which no fee will be payable.

The aggregate fees paid by the Company under the Advertising Business Agreement for the year ended 31 December 2005 were approximately RMB96,582,000.

6 **Gehua YangGuang Advertising Agreement**

On 8 December 2004, the Company and Beijing Gehua Sunshine Advertising Co., Ltd. ("Gehua YangGuang") entered into an advertising sales agreement pursuant to which the Company agreed to sell advertising space in the Beijing Youth Daily to Gehua YangGuang.

Pursuant to the Gehua YangGuang advertising agreement, the Company or any of its subsidiaries may only accept the booking of advertising space by Gehua YangGuang on the basis that the fees payable under the Gehua YangGuang advertising agreement are settled on normal commercial terms, which represent terms available to a party on an arm's length basis or terms no less favourable to the Company than those available to or from independent third parties.

During the year ended on 31 December 2005, sales fees paid by Gehua YangGuang to the Company were approximately RMB8,043,000.

7 **Printing agreement in respect of 北京科技報 (Beijing Sci-Tech Report), 中學生科學報 (Middleschool Science Post) and 法制晚報 (Legal Evening Post)**

On 7 December 2004, BYD and BYD Logistics entered into a printing agreement pursuant to which BYD Logistics agreed to provide printing services in respect of 北京科技報 (Beijing Sci-Tech Report), 中學生科學報 (Middleschool Science Post) and 法制晚報 (Legal Evening Post) and other newspaper and magazines of BYD which may be introduced by BYD. However, the terms of the printing agreement shall not be applicable to the Beijing Youth Daily. Under this agreement, BYD Logistics is responsible for the printing of the three newspapers and the provision of paper for the printing. The printing fee charged by the Company will be based on the actual volume of the newsprint printed and the quality of the printing and the paper. The quality of printing and paper will be pre-agreed between the parties. The agreement is due to expire on 31 December 2006.

**8 Beiqing Advertising Real Estate Advertising Agreement**

On 1 January 2005, the Company and Beijing Beiqing Advertising Limited ("Beiqing Advertising") entered into a real estate advertising agreement, pursuant to which Beiqing Advertising was appointed as an advertising agency of the Company. Under the agreement, Beiqing Advertising shall arrange with the Company the placement of advertisement on Beijing Youth Daily. The advertising fee to be charged by the Company shall be based on the standard unit fee set out in the rate card issued by the Company to other customers each year, subject to a certain discount under the real estate advertising agreement. The advertising fee shall be determined with reference to the area and page on which the advertisement is published. Beiqing Advertising was entitled to a commission calculated by a fixed percentage of the value of advertisement placed through Beiqing Advertising. The real estate advertising agreement expired on 31 December 2005.

Beiqing Advertising is a subsidiary of BYD, the controlling shareholder of the Company, and is thus a connected person of the Company. Pursuant to Rule 14A.14 of the Listing Rules, transactions contemplated under the real estate advertising agreement constitute continuing connected transactions of the Company.

For the year ended 31 December 2005, the total value of advertisements placed through Beiqing Advertising, net of the commission payable to Beiqing Advertising, amounted to approximately RMB23,610,000 (after commission payable).

**9 Xiaohongmao Distribution Service Agreement**

On 15 October 2005, the Company and 小紅帽發行股份有限公司 ("Xiaohongmao") entered into a distribution service agreement, pursuant to which Xiaohongmao was appointed by the Company to distribute direct mail advertisement to readers of Beijing Youth Daily as inside pages of Beijing Youth Daily. Pursuant to the agreement, the Company shall pay Xiaohongmao a distribution fee of RMB0.08 per advertisement mailer for an aggregate number of advertisement mailers of 80 million or below. For an aggregate number of advertisement mailers exceeding 80 million, the distribution fee will be reduced to RMB0.06 per advertisement mailer. The distribution service agreement expired on 31 December 2005.

Xiaohongmao is a subsidiary of BYD, the controlling shareholder of the Company, and is thus a connected person of the Company. Pursuant to Rule 14A.14 of the Listing Rules, transactions contemplated under the distribution service agreement constitute continuing connected transactions of the Company.

For the year ended 31 December 2005, the total distribution fee paid by the Company to Xiaohongmao amounted to approximately RMB8,125,000.

Prior to its listing on the Stock Exchange, the Company has applied for and was granted pursuant to Rule 14A.42 of the Listing Rules a waiver from strict compliance with the requirements for announcement and approval by independent shareholder under Chapter 14A of the Listing Rules in respect of the continuing connected transactions under items 3 to 7 above during their respective period.

In respect of the continuing connected transaction under item 7, the aggregate printing fee received by the Company pursuant to the printing agreement for the year ended 31 December 2005 amounted to approximately RMB79,795,000, which was in excess of the aggregate wavier amount of RMB53,500,000 in respect of such connected transaction as approved and granted by the Stock Exchange. The Group has engaged an independent financial adviser to review the excessive connected transactions and to provide independent opinions to the independent shareholders. The Company will seek approval from the independent shareholders in respect of such connected transaction at the upcoming general meeting to be held in June 2006.

In respect of the continuing connected transactions under items 8 and 9, the transactions fall under Rule 14A.34 of the Listing Rules and the Company is only required to comply with the reporting and announcement requirements thereunder. Under Rule 14A.34 of the Listing Rules, the independent shareholders' approval is not required. However, the Company did not comply with the announcement requirements set out in Rule 14A.47 of the Listing Rules. Please refer to the Company's announcement on 25 April 2006.

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under items 1-9 above were:

(1) carried out in the usual and ordinary course of business of the Group;

(2) entered into on normal commercial terms (if comparable transactions are available), or, if there were no comparable transactions to determine whether such transactions were on normal commercial terms, on terms no less favourable to the terms provided by independent third parties to the Company or by the Company to independent third parties (if applicable); and

(3) on arrangements regulating transactions and on terms fair and reasonable and in the interests of the independent shareholders of the Company as a whole and has not exceeded the relevant cap amount for each transaction as set out in the conditional waivers granted by the Stock Exchange (save for the cap amount in respect of item 7 has been exceeded and no cap amounts were granted by the Stock Exchange in respect of items 8 and 9).

The Company's auditors have reviewed the connected transactions from item 3 to 7 above which are included in the waiver from strict compliance with certain requirements of the Listing Rules, granted by the Stock Exchange of Hong Kong Limited on 13 December 2004 and confirmed to the Board in writing that the above transactions:

(1) were approved by the Board;

(2) were entered into on terms of the relevant governing agreements of such transactions;

(3) complied with the pricing policy as set out in the accounts of the Company; and

(4) did not exceed the respective caps applicable to each transaction, save for the continuing connected transaction under item 7 above.

During the report period, save from the above, there was no other discloseable connected transaction under the Listing Rules which is not disclosed.

## Material Litigation

To the best knowledge of the Board, as at 31 December 2005, the Company is not involved in any material litigation or arbitration and there is no legal action or claim made against the Company.

## Retirement Scheme

Details of the retirement scheme are set out in note 13 to the financial statements in this annual report.

## Audit Committee

Pursuant to the requirements of the Listing Rules, the Company has set up an Audit Committee to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises of two independent non-executive Directors and one non-executive Director. The Group's results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

## Public Float

Based on public information that is available to the Company and to the knowledge of the Directors, as at the date of this report, the public float of the Company's shares maintained above the prescribed level of 25% of the Company's issued shares as required under the Listing Rules.

## Corporate Governance

Since its listing on the Stock Exchange, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules except that the Remuneration Committee did not hold any meeting during the year ended 31 December 2005 (Please refer to Corporate Governance Report for details).

The Company has adopted Model Code contained in Appendix 10 to the Listing Rules regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed they complied with the required standard set out in the Model Code.

The Company has received from each of the independent non-executive Directors an annual written confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

## Auditors

The Company has appointed PricewaterhouseCoopers and Yue Hua as the international and PRC auditors respectively for the year ended 31 December 2005. The financial statements of the Company for the year 2005 prepared in accordance with accounting principles generally accepted in Hong Kong were audited by PricewaterhouseCoopers, the Company's international auditors. PricewaterhouseCoopers and Yue Hua has been providing audit services since 2004 and 2001 respectively. A resolution for the re-appointment of PricewaterhouseCoopers to be the international auditors will be proposed in the annual general meeting of shareholders.

## Taxation

For the year ended 31 December 2005, shareholders of non-PRC residents are not subject to any individual or corporate income tax, capital gain tax, stamp duty or estate duty of the PRC in respect of their holdings of shares in the Company. Shareholders are advised to consult their tax advisers for any potential PRC or Hong Kong tax implications arising from their holding or disposal of H Shares.

By order of the Board
**ZHANG Yanping**
*Chairman of the Board*

23 April 2006
Beijing, the PRC

## 1 Overview of Corporate Governance

Beijing Media places a lot of importance to establish a comprehensive, stable and reasonable corporate governance framework. At present, the Company's code of conduct of corporate governance includes but not limited to the following document:

(1) Articles of Association of Beijing Media Corporation Limited (the "Articles"); and

(2) Internal Control Handbook of Beijing Media Corporation Limited, including but not limited to the following policies and procedures:

- Procedures of Disclosure and Inspection of Connected Transactions;
- Management Procedures against Internal Corruption; and
- Investors Relation Management Procedures.

The Board has reviewed the corporate governance documents adopted by the Company and considers that such documents complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## 2 Code on Corporate Governance Practices

Save as disclosed herein, the Company has complied with the code provisions set out under the Code contained in Appendix 14 to the Listing Rules since its listing on the Stock Exchange on 22 December 2004.

## 3 Securities Transactions by Directors

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules regarding securities transactions by Directors. Directors as well as senior management members of the Company are required to comply with the Model Code.

Upon specific enquiries by the Company, all Directors confirmed that they have fully complied with the Model Code throughout the report period.

## 4 Shareholding Interests of Directors and Senior Management

As at 31 December 2005, none of the Directors, Supervisors or other senior management members had any interests or short positions in the shares or underlying shares in the Company or as referred to under Part XV of the Securities and Futures Ordinance (the "SFO"), Cap. 571 of the laws of Hong Kong (pursuant to Section 352 of the SFO, these interests and short positions are required to be registered in the register maintained or notified by the Directors or Supervisors to Beijing Media and the Stock Exchange under the Model Code).

## 5 Board

Set forth below are the composition and selected information of the Board:

| Name | Sex | Age | Other positions in the Company | Term of Directorship | Remunerated by the Company |
|---|---|---|---|---|---|
| ***Executive Directors*** | | | | | |
| Zhang Yanping | M | 48 | Chairman | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Zhang Yabin | M | 49 | | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Sun Wei | M | 52 | President | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| He Pingping | M | 51 | | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Du Min | M | 38 | | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| ***Non-executive Directors*** | | | | | |
| Xu Xun | M | 50 | Non-executive Director | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Liu Han | M | 47 | Non-executive Director | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Johannes Louw Malherbe | M | 58 | Non-executive Director | from 15 June 2005 to conclusion of the third annual general meeting of the Company | Yes |
| ***Independent Non-executive Directors*** | | | | | |
| Tsang Hing Lun | M | 57 | Independent Non-executive Director | from 12 November 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Wu Changqi | M | 51 | Independent Non-executive Director | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |
| Liao Li | M | 40 | Independent Non-executive Director | from 23 August 2004 to conclusion of the third annual general meeting of the Company | Yes |

The Board is a permanent decision-making entity of the Company, responsible for steering and supervising the operations of Beijing Media in an accountable and efficiency-oriented manner. All Directors are obliged to act in the best interests of the Company. All members of the Board acknowledged that they are jointly and severally accountable to the shareholders for the management, supervision and operations of the Company.

The Company confirms that the Board is primarily responsible for making decisions for the purposes of:

- formulation of the operating plan and investment proposals of the Company;
- formulation of the annual budgets and financial reports of the Company;
- formulation of proposals of profit distribution and recovery of losses of the Company;
- formulation of proposals for the addition or reduction of registered share capital and issue of bonds of the Company;
- formulation of proposals for the mergers, spin-off or winding up of the Company;
- determination on the internal management structure of the Company;
- appointment and removal of the President and Executive Vice President of the Company, appointment and removal of the Vice President and other senior management (including the Financial Controller) as recommended by the Executive Vice President, and determination of their respective remuneration;
- determination on the basic management systems of the Company;
- determination on amendments to the Articles of Associations of the Company; and
- formulation of proposals for material acquisitions or disposals of the Company.

The Company confirms that the management is primarily responsible for making decisions and performing daily management for the purposes of:

- formulation of proposal for the internal management structure of the Company;
- setting up the basic management system of the Company;
- formulation of the basic regulations of the Company;
- recommendation for the appointment or removal of other senior management members (including the Financial Controller) of the Company;
- appointment or removal of management personnel other than those subject to the appointment and removal by the Board;

- formulation of and determination on the branch structure of the Company; and
- appointment and replacement of and recommendation on the shareholder's representative, director or supervisor to its subsidiaries or associated companies.

**Attendance of Individual Directors at Board Meetings in 2005**

| | | Number of meetings: 8 |
|---|---|---|
| | **Attendance** | **Attendance by proxy** |
| ***Independent Non-executive Directors*** | | |
| Tsang Hing Lun | 7 | – |
| Wu Changqi | 6 | 2 |
| Liao Li | 7 | 1 |
| ***Executive Directors*** | | |
| Zhang Yanping | 8 | – |
| Zhang Yabin | 8 | – |
| Sun Wei | 8 | – |
| He Pingping | 8 | – |
| Du Min | 8 | – |
| ***Non-executive Directors*** | | |
| Xu Xun | 8 | – |
| Liu Han | 8 | – |
| Johannes Louw Malherbe | 7 | 1 |

Since the listing of the Company, the composition of the Board has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a minimum of 3 independent non-executive directors on board , and with Rule 3.10(2) of the Listing Rules, which require that at least one of the independent non-executive directors must possess appropriate professional qualification or accounting or relevant financial management expertise.

Pursuant to the requirements of the Stock Exchange, the Company confirms the independence of the independent non-executive Directors as follows: The Company has received the annual confirmation from each independent non-executive Directors confirming their compliance with the independence requirements set out under Rule 3.13 of the Listing Rules of the Stock Exchange. The Company considers that all independent non-executive Directors to be independent.

Members of the Board, Supervisory Committee and senior management do not have any financial, business, family or other material relationship with each other save for working relationship.

## 6 Chairman and President

The posts of Chairman and President of Beijing Media are assumed by Mr. Zhang Yanping and Mr. Sun Wei respectively.

The two posts are separate and distinct. The Chairman cannot assume the post of President of the Company simultaneously. Distinct terms of reference have been adopted for these two posts. The Chairman shall be responsible for overseeing the operation of the Board, while the President shall oversee the business operations of the Company. The roles of the Chairman and President are set out in detail in the Articles of Association of the Company.

The Chairman and President do not have any financial, business, family or other material relationship with each other save for working relationship.

## 7 Non-executive Directors

Pursuant to the Articles, non-executive Directors of the Company are appointed for a term of three years.

Independent non-executive Directors are appointed for a term of three years which is renewable upon re-election. Independent non-executive Directors may not be removed without legitimate cause. Where an independent non-executive Director was removed from office before expiry of his term, the matter shall be disclosed by the Company as a special issue.

## 8 Remuneration of Directors

The Board has set up a Remuneration Committee comprising three independent non-executive Directors. The Remuneration Committee was chaired by Mr. Wu Changqi with Mr. Tsang Hing Lun and Mr. Liao Li as members.

The Remuneration Committee consults the Chairman and/or President on the remuneration to other executive Directors and will seek assistance and/or advice from external professional advisor when considered necessary.

For details on the current remuneration policy, long-term incentive scheme and basis for remuneration to Directors, please refer to note 13 to the financial statements.

Set forth below are the principal duties of the Remuneration Committee:

- to advise the Board on setting up formal and transparent procedures in respect of the determination of remuneration policy and structure for the Directors and senior management personnel of the Company;
- to determine the remuneration packages of all executive Directors and senior management personnel and advise the Board on the remuneration to non-executive Directors;
- to review and approve the performance-linked remuneration to the Directors with reference to the operating goals of the Company as approved by the Board from time to time;

- to review and approve compensation to the executive Directors and senior management personnel for loss or termination of offices or appointment;

- to review and approve the compensation arrangement in relation to the removal of Directors involving misconduct; and

- to ensure that the Directors or any of their associates are not involved in the determination of the Directors' remuneration of their own.

Compensation and annual salaries to the Directors and senior management personnel have been considered and approved by the fourth meeting of the second session of the Board held on 4 December 2004. The three independent non-executive Directors being members of the existing Remuneration Committee attended the Board meeting and approved the relevant resolution. Since no adjustment was made to the proposed remuneration and compensation to the Directors and senior management personnel of the Company between December 2004 and 31 December 2005, the Remuneration Committee did not hold any meeting during the year ended 31 December 2005.

## 9 Nomination of Directors

The Board has not set up any nomination committee. Instead, the Company appoints new directors through a formally regulated, carefully considered and transparent procedures. Generally, a candidate for directorship will be nominated by the Board according to the recommended principles and standards by the shareholders and the nomination will take the form of a proposed resolution to be approved by the Company's general meeting.

The intention for nomination of a directorship candidate and a written notice of the candidate stating acceptance of such nomination shall be lodged with the Company no earlier than the date of dispatch of notice convening the general meeting and no later than 7 days prior to the date of the general meeting. The open period for submitting and accepting nomination shall not be less than 7 days.

At the sixth meeting of the Board held on 23 April 2005, a resolution in respect of the appointment of Mr. Johannes Louw Malherbe as a non-executive Director of Beijing Media was considered and approved. The nomination was approved by the 2004 annual general meeting held on 15 June 2005. Attendance of Directors at that Board meeting is as follows:

| | Attendance | Attendance by proxy |
|---|---|---|
| ***Executive Directors*** | | |
| Zhang Yanping | Yes | – |
| Zhang Yabin | Yes | – |
| Sun Wei | Yes | – |
| He Pingping | Yes | – |
| Du Min | Yes | – |
| ***Non-executive Directors*** | | |
| Xu Xun | Yes | – |
| Liu Han | Yes | – |
| Johannes Louw Malherbe | Yes | – |
| ***Independent Non-executive Directors*** | | |
| Tsang Hing Lun | Yes | – |
| Wu Changqi | – | Yes |
| Liao Li | – | Yes |

Save as disclosed herein, the Board did not make any other nomination for directorship nor formulate any policy in respect of directorship nomination during the year ended 31 December 2005.

## 10 Remuneration of the Auditors

PricewaterhouseCoopers and Yue Hua Certified Public Accountants (岳華會計師事務所) were appointed as the international and PRC auditors of the Company for 2005, respectively. For the year ended 31 December 2005, audit fees incurred by the Company amounted to approximately RMB4.7 million.

The Audit Committee has approved the re-appointment of PricewaterhouseCoopers and Yue Hua Certified Public Accountants as the international and PRC auditors of the Company for 2006, respectively.

PricewaterhouseCoopers has been providing audit service to Beijing Media since 2004, representing two consecutive years of service since entering into the first audit service engagement letter on 29 July 2004. Yue Hua Certified Public Accountants has been providing audit service to Beijing Media since 2001, representing four consecutive years of service since entering into the first audit service engagement letter on 4 June 2002.

During the report period, apart from audit service, PricewaterhouseCoopers also rendered services to the Company in respect of financial due diligence on a company whose shares are to be acquired under a proposed acquisition by the Company. The service fee for due diligence amounted to approximately RMB550,000. It also provided vote counting service to the Company at the annual general meeting for the year of 2004. The fee for the vote counting service amounted to RMB8,300.

During the report period, apart from audit service, Yue Hua Certified Public Accountants also rendered services to the Company in respect of financial due diligence on a company whose shares are to be acquired under a proposed acquisition by the Company. It also provided internal investigation service in respect of the arrest of the Company's employees by the government. The total fee for these two services amounted to approximately RMB140,000.

## 11 Auditing and Audit Committee

The Board of the Company has set up an Audit Committee comprising three non-executive Directors, which includes two independent non-executive Directors. The Audit Committee was chaired by Mr. Tsang Hing Lun with Mr. Wu Changqi and Mr. Liu Han as members.

The principal duties of the Audit Committee are to review and inspect the independence of the external auditors and effectiveness of the auditing procedures; to formulate and enforce policies in respect of the provision of non-audit services provided by the external auditors; to advise the Board on the appointment, re-appointment and removal of the external auditors, review and approve the remuneration and terms of engagement of the external auditors, and handle the resignation and removal of the auditors; to review the internal audit plans of the Company; to supervise the quality of internal audit and financial disclosure of the Company and review the interim and annual financial statements before their submission to the Board; to supervise and advise on the appointment and removal of head of the Company's internal audit function; to review and receive complaints on the effectiveness of the Company's internal control procedures; and to inspect the integrity of the Company's financial statements, annual reports and interim reports and review material opinions in respect of financial reporting contained in the financial statements and reports.

The Committee will seek assistance and/or opinion from external professional advisor when considered necessary.

Set forth below are the work details of the Audit Committee during the year:

- reviewed and considered the results of the Group for the year 2004;
- reviewed and considered the results of the Group for the first half of 2005;
- reviewed and evaluated the internal control systems of the Group;
- directed the internal investigation on the arrest of six employees of the Company by the government; and
- reviewed connected transactions.

**Attendance of Individual Members at Meetings of the Audit Committee in 2005**

| Name | Attendance | Number of meetings: 3<br>Attendance by proxy |
|---|---|---|
| Tsang Hing Lun | 3 | – |
| Wu Changqi | 2 | – |
| Liu Han | 2 | – |

The Company has been in full compliance with requirements of Rule 3.21 of the Listing Rules throughout the period from its listing on the Stock Exchange to 31 December 2005.

The Directors are responsible for overseeing the preparation of financial statements for each financial period, so that the financial statements reflect a true and fair view of the operating position, results and cash flow of the Company during the period. In preparing the financial statements for the year ended 31 December 2005, the Directors have (1) selected and consistently applied appropriate accounting policies; (2) approved the adoption of all standards in line with the Hong Kong Financial Reporting Standards ("HKFRS"); and (3) made appropriate judgments and assessments in a prudent manner and adopted an ongoing concern basis for preparation of financial statements. For the statement of reporting responsibility issued by PricewaterhouseCoopers, the auditors of the Company, please refer to the auditors' report set out in the financial statements.

## 12 Rights of Shareholders

The Board and senior management members of the Company understand that they represent the interests of the shareholders as a whole. As such, they take important priority in safeguarding the values for shareholders, maintaining the steady level and sustained growth of the return to investment and enhancing the competitiveness of the operations.

Pursuant to the Articles of the Company, an extraordinary general meeting shall be convened within two months upon request in writing by shareholders holding independently or jointly 10% or above of the outstanding shares of the Company conferring a right to vote, where shareholdings of the shareholders shall be determined as on the date of submission of the relevant written request.

The relevant documents must state the objective of the general meeting and be served to all Directors.

The shareholders may raise questions to the Board and the Company shall provide sufficient contact information so as to enable the shareholders to properly direct their enquiries. The shareholders may raise their opinions directly at the general meeting.

## 13 Investors Relation

### (1) Material amendments to the Articles of Association of the Company

On 15 June 2005, the following amendments to the Articles of Association of the Company were effected upon approval by the general meeting:

"existing" (目前的) in Article 18 be deleted and replaced by "Prior to the issue of overseas listed foreign shares" (發行境外上市外資股前的). Accordingly, Article 18 shall be amended as:

*Prior to the issue of overseas listed foreign shares, the Company had a total of 147,400,000 shares of RMB1 each, all of which were subscribed by the following promoters, representing in aggregate 100% of the total issued ordinary shares of the Company:*

| | | |
|---|---|---|
| *BYD* | *129,557,060 shares* | *87.9%* |
| *Beijing Zhijin Science and Technology Investment Co., Ltd.* | *7,367,000 shares* | *5.0%* |
| *China Telecommunication Broadcast Satellite Corp.* | *4,424,200 shares* | *3.0%* |
| *Beijing Development Area Ltd.* | *3,098,940 shares* | *2.1%* |
| *Sino Television Co., Ltd.* | *2,952,800 shares* | *2.0%* |

Articles 19 to 22 be deleted.

The following be inserted as Article 19:

Upon completion of this issue, the registered capital of the Company is RMB197,310,000, currently divided into a total of 197,310,000 shares of RMB1.00 each. The shareholding structure is as follows:

| | | |
|---|---|---|
| BYD | 124,839,974 shares | 63.27% |
| Beijing Zhijin Science and Technology Investment Co., Ltd. | 7,367,000 shares | 3.73% |
| China Telecommunication Broadcast Satellite Corp. | 4,263,117 shares | 2.16% |
| Beijing Development Area Ltd. | 2,986,109 shares | 1.52% |
| Sino Television Co., Ltd. | 2,952,800 shares | 1.50% |
| Public shareholders | 54,901,000 shares | 27.82% |

### (2) Classes of shareholders and total shareholding

| | **Number of Shares** | **Percentage of total share capital (%)** |
|---|---|---|
| Total Share Capital | 197,310,000 | 100.00 |
| Holders of Domestic Shares | 142,409,000 | 72.18 |
| BYD | 124,839,974 | 63.27 |
| Beijing Zhijin Science and Technology Investment Co., Ltd. | 7,367,000 | 3.73 |
| China Telecommunication Broadcast Satellite Corp. | 4,263,117 | 2.16 |
| Beijing Development Area Ltd. | 2,986,109 | 1.52 |
| Sino Television Co., Ltd. | 2,952,800 | 1.50 |
| H Shares in issue | 54,901,000 | 27.82 |
| Including: MIH Print Media Holdings Limited | 19,533,000 | 9.90 |

**(3) General meeting held on 15 June 2005**

The 2004 annual general meeting ("AGM") was held at 2:00 p.m. on 15 June 2005 at Meeting Room, 10th Floor, Beijing Youth Daily Agency Building, Beijing, the PRC.

Resolutions reviewed and discussed at the annual general meeting include:

1. The report of the Board of Beijing Media for 2004;

2. The report of the supervisory committee of Beijing Media for 2004;

3. The audited consolidated financial report of Beijing Media for 2004;

4. The profit distribution proposal of Beijing Media for 2004 and the distribution of final dividends;

5. The proposal on re-appointment of PricewaterhouseCoopers and Yue Hua Certified Public Accountants as the international and PRC auditors of Beijing Media for 2005, respectively, and the authorisation of the Board to fix their remuneration;

6. The proposal on the budget of Beijing Media for 2005;

7. The proposal on the election of Mr. Johannes Louw Malherbe as a non-executive director of the Company;

8. The Monetary Housing Allowance Implementation Proposal of Beijing Media; and

9. The amendments to the Articles of Association of the Company as a special resolution.

The followings were passed as ordinary resolutions by vote in the AGM:

- Report of the Board of the Company for the year ended 31 December 2004;

- Report of the Supervisory Committee of the Company for the year ended 31 December 2004;

- Audited Consolidated financial statement of the Company for the year ended 31 December 2004;

- Profit distribution proposal and payment of final dividend of the Company for the year ended 31 December 2004;

- Re-appointment of Yue Hua Certified Public Accountants and PricewaterhouseCoopers as the PRC and international auditors of the Company for 2005 and authorisation of the Board to fix their remuneration;

- Budget proposal of the Company for 2005;

- Election of Mr. Johannes Louw Malherbe as a non-executive director of the Company; and
- Monetary Housing Allowance Implementation Proposal of the Company.

The following was passed as a special resolution by the AGM:

- Proposed amendments to the Articles of the Company.

**(4) Important matters for shareholders for the 2006 financial year**

The 2005 annual general meeting will be held at 2:00 p.m. on 20 June 2006 at the Meeting Room, 10th Floor, Beijing Youth Daily Agency Building, Chaoyang District, Beijing, the PRC.

**(5) Public shareholding**

The highest and lowest trading prices of the Company's H shares during the year were HK$22.70 and HK$8.9 respectively up to 31 December 2005. The trading volume and closing price as at 31 December 2005 were 93,500 H Shares and HK$10.65, respectively.

## 14 Internal Control

The Board is ultimately responsible for the internal control systems of the Company and has reviewed the efficiency of such systems through the Audit Committee during the year.

The Company has continued to make efforts to establish and improve its internal control systems, enhance the control procedures and operating efficiencies and reduce operating risks. The Company has established a comprehensive internal control system, which provides a relatively comprehensive internal control regime on the asset supervision and management, fund management, operation management, financial management, cost control, human resources management and information technology management. With a comparatively scientific internal structure and proper system design, the Company has set up a scientific decision-making mechanisms, implementation mechanisms and supervision mechanisms. The "Scope of Authorisation of Beijing Media Corporation Limited"(北青傳媒股份有限公司批准權限) has strict provisions in respect of the authority of the Business Department, Financial Department, Human Resources and Administration Department, Executive Vice President and President. The authorised personnel and departments must discharge their duties in good faith within the scope of authorisation. Where any approval they made exceeds their respective scope of authorisation, the relevant departments may decline such instruction.

The effective implementation of the internal system ensured the orderly operational management of the Company and effective risk control, thereby safeguarding the integrity of the Company's properties and ensuring the attainment of the Company's operating goals.

Every department of the Company has smooth access to the Board for the submission of information required to be submitted to the Board. The President represents the highest point of contact for all departments, reports to the Board in respect of all departmental operations and promotes proper decisions within the Company to cater to and coordinate the various requests of the departments. As such, any matter discovered by the staff which are of a material nature (e.g. disclosable matters) may be reported to the decision-making management of the Company in a prompt, accurate and efficient manner. On the other hand, decisions of the Company's management are also implemented and supervised in an accurate, prompt and consistent manner.

Accordingly, the Board takes the view that: The internal control system of the Company is complete, rational and effective, able to ensure the proper discharge of obligations by the Company and its Directors under the Listing Rules and applicable laws and regulations in Hong Kong, and is able to ensure that the Directors assess the financial positions and prospect of the Company and its subsidiaries in a proper manner.

Building on our increasing practical experience and feedback from shareholders, with the aim of achieving continued development, we will persistently review and improve our corporate governance practices with reference to the domestic and international development trends, changes in internal and external risks and the Listing Rules.

The current session of the Supervisory Committee ("Supervisory Committee") has worked with the Board and the management in accordance with its mandate given in the annual general meeting to safeguard the assets and financial position of the Company, to protect and enhance the interest of the Company and the shareholders as a whole.

**A. Overview of the Work of the Supervisory Committee in 2005**

In 2005, the supervisory committee held one meeting, details of its time, venue, attendance and contents of the meeting being are as follows:

On 7 January 2005, the first meeting of the second session of Supervisory committee was convened at the Conference Room which located at the 21st Floor of the Beijing Youth Daily Agency Building. The attending supervisors included Mr. Li Shiheng, Mr. He Daguang, Mr. Zhu Yaoting and Mr. Lui Yanfeng. Mr. Sun Wei, the President of the Company, and Mr. Shang Da, the Board Secretary, also attended the meeting. The meeting reviewed and approved, by the showing of hands, the "Proposal on Election of Li Shiheng as Chairman of the Supervisory Committee".

The holding of the abovementioned meeting was in compliance with the relevant provisions of the Company Law and the Articles of Association of the Company.

**B. Independent Opinion of the Supervisory Committee on Relevant Matters of the Company in 2005**

The overall results and the operation indicators of the Company deteriorated in 2005. Over the past year, the current session of Supervisory Committee continued its effort to improve the corporate governance structure, operational transparency as well as the level of compliance of the Company. It ensured that the management of the Company worked to establish a positive corporate image in the capital market. In addition, measures were implemented to safeguard the interests of investors, especially investors with smaller investment portfolio.

*1. Financial Position of the Company*

The Supervisory Committee reviewed the financial system, financial reports and internal audit of the Company, and considers that the contents of financial report, audited financial statements and the annual report are true and reliable, and the audit opinion of the Company's international accountant is objective and fair.

*2. Operation of the Company*

The Supervisory Committee supervised the Company's operating activities. The Supervisory Committee takes the view that the Company has established a relatively comprehensive internal control system, and is committed to improve its internal control to manage various risks in the Company's operations. The Supervisory Committee is of view that the Company operates in compliance with the laws and regulations of the PRC, and the Articles and regulations of the Company.

3. *Directors and Senior Management of the Company*

The Supervisory Committee supervised the performance of duties by the Directors and the management, as well as the enforcement of resolutions of the annual general meeting. The Supervisory Committee considers that the Directors and controlling shareholders have acted according to the resolutions of the annual general meeting and faithfully discharged their duties to achieve the operational targets. The Supervisory Committee is not aware of any violation of laws, regulations, the Articles of the Company or impairment to the interests of shareholders by the Directors or other senior management in performing their duties.

4. *Use of Global offering Proceeds*

The Supervisory Committee has reviewed the projects funded by listing proceeds of the Company after its listing. The Supervisory Committee considers that, up to the latest practicable date, the use of listing proceeds has been reasonable and consistent taking into account of market conditions with the prospectus of the Company dated 13 December 2004.

5. *Merger & Acquisition or Disposal of Assets By the Company*

The Supervisory Committee has reviewed the operating activities such as mergers and acquisitions and disposal of assets of the Company. The Supervisory Committee considers that transaction amounts of the mergers and acquisitions, disposals of assets of the Company were fair and reasonable, and is not aware of any insider dealings or acts detrimental to the interests of the shareholders, especially the independent shareholders.

6. *Fairness of Connected Transactions*

The Supervisory Committee has supervised the connected transactions of the Company. The Supervisory Committee considers that terms on which the connected transactions were conducted were fair and reasonable, and is not aware of any acts detrimental to the interests of the Company or its shareholders.

As a whole, the current session of the Board established and implemented the Company's development strategy, actively incorporated the opinions and suggestions of the Supervisory Committee to safeguard the interest of the Company and its shareholders according to the business targets as decided by the annual general meeting. In the coming year, the Supervisory Committee will continue to discharge its obligations faithfully to maximise the interests of the Company and its shareholders.

**Beijing Media Corporation Limited**
*Supervisory Committee*

23 April 2006

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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www.pwchk.com

**AUDITORS' REPORT TO THE SHAREHOLDERS OF**
**Beijing Media Corporation Limited**
*(A joint stock company incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 47 to 96 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which gives a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 23 April 2006

| | Note | Year ended 31 December 2005 RMB'000 | 2004 Restated RMB'000 |
|---|---|---|---|
| Turnover | 5 | **857,607** | 1,190,306 |
| Cost of sales | | **(762,126)** | (848,059) |
| Gross profit | | **95,481** | 342,247 |
| Other gains – net | 6 | **31,264** | 28,515 |
| Selling and distribution expenses | 7 | **(5,335)** | (56,872) |
| Administrative expenses | 7 | **(43,027)** | (45,250) |
| Loss on sale of discontinued operations | | **–** | (3,210) |
| Finance costs | 8 | **(21,021)** | (2,894) |
| Share of profits and losses of | | | |
| A jointly controlled entity | | **(33,767)** | (40,293) |
| Associated companies | | **–** | 39 |
| Profit before income tax | | **23,595** | 222,282 |
| Income tax expenses | 9 | **(7,252)** | (16,734) |
| Profit for the year | | **16,343** | 205,548 |
| Attributable to: | | | |
| Equity holders of the Company | | **10,087** | 194,180 |
| Minority interests | | **6,256** | 11,368 |
| | | **16,343** | 205,548 |
| Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share), basic | | | |
| – Earnings per share of continuing operations | | **0.05** | 1.32 |
| – Loss per share of discontinuing operations | | **–** | (0.01) |
| | 12 | **0.05** | 1.31 |
| Dividend | 11 | **76,951** | 171,535 |

The accompanying notes are an integral part of these consolidated financial statements.

| | | As at 31 December | |
|---|---|---|---|
| | Note | **2005** | 2004 Restated |
| | | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **16,836** | 18,130 |
| Prepayment for land use rights | *15* | **33,202** | 34,087 |
| Intangible assets | | **5,387** | 5,306 |
| Investment in a jointly controlled entity | *16* | **(71,510)** | (37,743) |
| Available-for-sale financial assets | | **2,069** | 2,069 |
| | | **(14,016)** | 21,849 |
| **Current assets** | | | |
| Inventories | *18* | **59,998** | 54,623 |
| Trade receivables | *19* | **117,015** | 83,999 |
| Other receivables, prepayment and deposits | *20* | **12,102** | 86,242 |
| Restricted bank deposits | *21* | **56,000** | 56,000 |
| Short-term bank deposits | *22* | **1,073,933** | 43,030 |
| Cash and cash equivalents | *23* | **284,733** | 1,308,107 |
| | | **1,603,781** | 1,632,001 |
| **Total assets** | | **1,589,765** | 1,653,850 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | *28* | **197,310** | 197,310 |
| Reserves | *29* | **1,024,031** | 1,009,546 |
| Retained earnings | *29* | | |
| – Proposed final dividend | | **49,328** | 76,951 |
| – Others | | **28,874** | 82,750 |
| | | **1,299,543** | 1,366,557 |
| Minority interests | | **33,635** | 26,934 |
| **Total equity** | | **1,333,178** | 1,393,491 |

| | | As at 31 December | |
|---|---|---|---|
| | Note | **2005** | 2004 Restated |
| | | ***RMB'000*** | *RMB'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term liabilities | *30* | **–** | 5,280 |
| **Current liabilities** | | | |
| Trade payables | *24* | **65,525** | 54,833 |
| Other payables and accruals | *25* | **157,919** | 177,577 |
| Taxation payables | *26* | **5,123** | 9,929 |
| Short-term bank loan | *27* | **20,000** | 10,000 |
| Current portion of long-term liabilities | *30* | **8,020** | 2,740 |
| | | **256,587** | 255,079 |
| **Total liabilities** | | **256,587** | 260,359 |
| **Total equity and liabilities** | | **1,589,765** | 1,653,850 |
| **Net current assets** | | **1,347,194** | 1,376,922 |
| **Total assets less current liabilities** | | **1,333,178** | 1,398,771 |

Approved by the Board of Directors on 23 April 2006

**Zhang Yanping**
*Chairman*

**Sun Wei**
*Director*

The accompanying notes are an integral part of these consolidated financial statements.

| | | As at 31 December | |
|---|---|---|---|
| | *Note* | **2005** **RMB'000** | 2004 RMB'000 Restated |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **14,960** | 16,701 |
| Prepayment for land use rights | *15* | **33,202** | 34,087 |
| Intangible assets | | **5,378** | 5,306 |
| Investments in subsidiaries | *17* | **17,343** | 15,150 |
| Investment in a jointly controlled entity | *16* | **2,550** | 2,550 |
| | | **73,433** | 73,794 |
| **Current assets** | | | |
| Trade receivables | *19* | **51,871** | 57,696 |
| Other receivables, prepayment and deposits | *20* | **10,446** | 84,258 |
| Restricted bank deposits | *21* | **56,000** | 56,000 |
| Short-term bank deposits | *22* | **1,073,933** | 43,030 |
| Cash and cash equivalents | *23* | **275,024** | 1,299,161 |
| | | **1,467,274** | 1,540,145 |
| **Total assets** | | **1,540,707** | 1,613,939 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | *28* | **197,310** | 197,310 |
| Reserves | *29* | **1,020,622** | 1,007,316 |
| Retained earnings | *29* | | |
| – Proposed final dividend | | **49,328** | 76,951 |
| – Others | | **89,578** | 114,582 |
| **Total equity** | | **1,356,838** | 1,396,159 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term liabilities | *30* | **–** | 5,280 |
| **Current liabilities** | | | |
| Trade payables | *24* | **37,956** | 48,733 |
| Other payables and accruals | *25* | **135,708** | 156,285 |
| Taxation payables | *26* | **2,185** | 4,742 |
| Current portion of long-term liabilities | *30* | **8,020** | 2,740 |
| | | **183,869** | 212,500 |
| **Total liabilities** | | **183,869** | 217,780 |
| **Total equity and liabilities** | | **1,540,707** | 1,613,939 |

Approved by the Board of Directors on 23 April 2006

**Zhang Yanping**
*Chairman*

**Sun Wei**
*Director*

The accompanying notes are an integral part of these financial statements.

| | | Attributable to equity holders of the Company | | | | | Minority Interests | Total |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Statutory public welfare fund RMB'000 | Retained earnings RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2004, as previously reported as equity | | 101,260 | – | 32,689 | 33,540 | 230,200 | – | 397,689 |
| Balance at 1 January 2004, as previously separately reported as minority interests | | – | – | – | – | – | 26,286 | 26,286 |
| Balance at 1 January 2004, as restated | | 101,260 | – | 32,689 | 33,540 | 230,200 | 26,286 | 423,975 |
| Issue of shares | | 49,910 | 896,313 | – | – | – | – | 946,223 |
| Transfer to share capital | | 46,140 | – | – | – | (46,140) | – | – |
| Appropriation to statutory reserves | | – | – | 24,299 | 22,705 | (47,004) | – | – |
| Capital held by minority shareholders of discontinued operations | | – | – | – | – | – | (8,574) | (8,574) |
| Dividend relating to 2003 | | – | – | – | – | (171,535) | (2,146) | (173,681) |
| Profit for the year | | – | – | – | – | 194,180 | 11,368 | 205,548 |
| Balance at 31 December 2004 | | 197,310 | 896,313 | 56,988 | 56,245 | 159,701 | 26,934 | 1,393,491 |
| Balance at 1 January 2005 as previously reported as equity | | 197,310 | 896,313 | 56,988 | 56,245 | 159,701 | – | 1,366,557 |
| Balance at 1 January 2005 as previously separately reported as minority interests | | – | – | – | – | – | 26,934 | 26,934 |
| Balance at 1 January 2005 as restated | | 197,310 | 896,313 | 56,988 | 56,245 | 159,701 | 26,934 | 1,393,491 |
| Capital held by minority shareholders of the acquired subsidiary | | – | – | – | – | – | 2,107 | 2,107 |
| Capital injection from minority shareholders of subsidiary | | – | 66 | – | – | – | 63 | 129 |
| Dividend relating to 2004 | *11* | – | – | – | – | (76,951) | (1,725) | (78,676) |
| Appropriation to statutory reserves | | – | – | 7,503 | 7,132 | (14,635) | – | – |
| Profit for the year | | – | – | – | – | 10,087 | 6,256 | 16,343 |
| Others | | – | (216) | – | – | – | – | (216) |
| **Balance at 31 December 2005** | | **197,310** | **896,163** | **64,491** | **63,377** | **78,202** | **33,635** | **1,333,178** |

The accompanying notes are an integral part of these consolidated financial statements.

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | | Restated |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *31* | **60,093** | 163,052 |
| Interest paid | | **(749)** | (543) |
| Income tax paid | | **(8,162)** | (37,501) |
| Net cash generated from operating activities | | **51,182** | 125,008 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | | **(2,349)** | – |
| Purchase of property, plant and equipment and intangible assets | | **(1,424)** | (1,802) |
| Proceeds from disposal of property, plant and equipment | | **7** | 11 |
| Sales of discontinued operations net of cash paid | | **–** | (41,717) |
| Increase in investment in a jointly controlled entity | | **–** | (2,550) |
| Increase in restricted bank deposits | | **–** | (56,000) |
| (Increase)/Decrease in short-term bank deposits | | **(1,030,903)** | 2,070 |
| Interest received | | **15,712** | 5,010 |
| Net cash used in investing activities | | **(1,018,957)** | (94,978) |
| **Cash flows from financing activities** | | | |
| Gross proceeds from initial public offering | | **58,611** | 954,490 |
| Gross proceeds received on behalf of the Selling Shareholders | | **–** | 94,536 |
| Initial public offering expenses paid | | **(25,391)** | (42,560) |
| Proceeds from borrowings | | **10,000** | – |
| Dividend paid to the Company's shareholders | | **(76,951)** | (141,535) |
| Exchange gain on dividends paid to the Company's shareholders | | **406** | – |
| Dividend paid to minority shareholders | | **(1,725)** | (2,146) |
| Capital injection from minority shareholders | | **129** | – |
| Net cash (used)/generated from financing activities | | **(34,921)** | 862,785 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,002,696)** | 892,815 |
| Cash and cash equivalents at beginning of the year | *23* | **1,308,107** | 415,292 |
| Effect of exchange rate changes | | **(20,678)** | – |
| **Cash and cash equivalents at end of the year** | *23* | **284,733** | 1,308,107 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. GENERAL INFORMATION

The Company was incorporated in the People's Republic of China ("PRC") on 28th May 2001 as a joint stock company with limited liability under the PRC Company Law. The Company and its subsidiaries are hereinafter referred to as the "Group". The Group is principally engaged in the provision of newspaper advertising services, printing and trading of print-related materials in the PRC.

The Company is listed on The Stock Exchange of Hong Kong Limited.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

*The adoption of new/revised HKFRS*

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 3 | Business Combinations |
| HKFRS 4 | Insurance Contracts |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33 and 38 and HKFRS 4 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of a jointly controlled entity and associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and 38 and HKFRS 4 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities use Renminbi ("RMB") as their functional currency as well as presentation currency for respective entity's financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from fixed assets to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted at cost less accumulated depreciation.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 3 and HKAS 36 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortized on a straight line basis over a period of 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.7):

– The Group ceased amortization of goodwill from 1 January 2005;

– Accumulated amortization as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of property, plant and equipment is accounted at fair value prospectively;

– HKAS 39 – prospectively after 1 January 2005;

– HKFRS 3 – prospectively after 1 January 2005; and

– HKFRS 4 – prospective application of the disclosure requirements of this standard except for disclosure required about accounting policies, recognized liabilities and expenses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

The adoption of revised HKAS 17 resulted in:

| | As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Decrease in property, plant and equipment | **33,202** | 34,087 |
| Increase in prepayment for land use rights | **33,202** | 34,087 |

The adoption of HKFRS 3 resulted in:

| | **As at 31 December 2005** |
|---|---|
| | ***RMB'000*** |
| Increase in intangible assets | **827** |

| | **For the year ended 31 December 2005** |
|---|---|
| | ***RMB'000*** |
| Decrease in administrative expenses | **827** |
| Increase in basic earnings per share | **0.004** |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

*New accounting standard pronouncements*

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised HKFRSs and HKFRS Interpretations ("HKFRS-Ints"), and HKAS and HKAS Interpretations ("HKAS-Ints") as set out below which are effective for accounting periods beginning on or after 1 January 2006.

– HKFRS 7 – Financial Instruments: Disclosure

– HKAS 1 (amendment) – Capital Disclosure

– HKAS 39 (amendment) – The Fair Value Option

– HKAS 39 (amendment) and HKFRS 4 (amendment) – Financial Guarantee Contracts

– HKAS-Ints 4 – Determining whether an Arrangement Contains A Lease

The Group has not early adopted these new and revised standards and interpretations in the financial statements for the year ended 31 December 2005. The Group has commenced an assessment of the impact of these new and revised standards and interpretations, but is not yet in a position to state whether these new and revised standards and interpretations would have a significant impact on its results of operations and financial positions.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated for the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Consolidation *(Continued)*

*(a) Subsidiaries (Continued)*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

*(b) Jointly controlled entity*

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity and goodwill/negative goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in the jointly controlled entity reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the jointly controlled entity.

In the Company's balance sheet, the investment in the jointly controlled entity is stated at cost less provision for impairment losses. The result of the jointly controlled entity is accounted for by the Company on the basis of dividends received and receivable.

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Foreign currency translation *(Continued)*

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight line method to write off their cost to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| – Buildings | 20 years |
| – Office equipment | 5-6 years |
| – Motor vehicles | 5-6 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the consolidated income statement.

### 2.6 Prepayment for land use rights

The prepayments for land use right are stated at cost initially and expensed on a straight line basis over the period of lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Intangible assets

*(a) Goodwill*

Goodwill represents the excess of the cost an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

*(b) Computer software*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

### 2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 2.9 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs and are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in the income statement as gains or losses from investment securities. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Available-for-sale financial assets *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative losses – measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

### 2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises the actual purchase price plus any prescribed taxes, transportation, handling, insurance incurred in the acquisition of inventories. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### 2.11 Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

### 2.12 Short-term bank deposits

Short-term bank deposits comprise cash invested in fixed-term deposits with original maturities ranging from more than 3 months to one year. Short-term bank deposits are classified as held-to-maturity investments and are carried at amortized cost.

### 2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposit held at call with banks, other short term highly liquid investment with original maturities of three months or less.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.14 Employee benefits

(a) *Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) *Social security*

In addition to pension benefits, the full-time employees of the companies within the Group are also entitled to staff welfare benefits, including housing benefits, medical care, welfare subsidies and unemployment insurance, and etc. The Group is required to accrue for these benefits based on certain percentage of the employees' salaries in accordance with the relevant regulations. The Group's liability in respect of these employee benefits is limited to the contributions payable in each period.

### 2.15 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax if any, rebates and discounts and after eliminating sales within the Group. The fair value is determined by discounting all future receipts using on imputed rate of interest. Revenue is recognized as follows:

(a) Revenue from advertising contracts is generally recognized rateably over the period in which the advertisement is displayed.

(b) Revenue from trading of print-related materials, net of value-added tax is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(c) Revenue from printing, net of value-added tax is recognized when the service is provided.

(d) Interest income is recognized on a time proportion basis, using the effective interest method.

(e) Revenue from operating lease is recognized on a straight line basis over the period of the lease.

### 2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight line basis over the period of the lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Financial guarantee contracts

(a) *Classification*

The Company issues financial guarantee contracts that transfer significant insurance risk.

Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holders for losses they incur because specified debtors fail to make payments when due in accordance with the original or modified terms of debt instruments.

(b) *Liability adequacy test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and related administrative expenses are used. Any deficiency is immediately charged to income statement.

### 2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.19 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resource embodying economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

### 2.20 Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group is exposed to market risk arising from changes in foreign exchange rates and credit risk. The Group does not use any derivative financial instruments to manage those risks.

*(a) Foreign exchange risk*

The Group is exposed to foreign exchange risk as significant portion of its cash balances are denominated in Hong Kong dollars ("HKD"). Fluctuation of the exchange rates of RMB against foreign currencies could effect the Group's results of operations. Under the current foreign exchange system in the PRC, the Group is not able to hedge effectively against currency risks.

*(b) Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products and services provided are made to customers with an appropriate credit history.

### 3.2 Insurance risk

The risk relates to the financial guarantees provided to banks or other parties by the Company on the borrowings and liabilities of a subsidiary and a jointly controlled entity. The risk under the financial guarantee contract is the possibility that the insured event (default of a specified debtor) occurs and the uncertainty of the amount of the resulting claims. By the nature of a financial guarantee contract, this risk is predictable.

Experience shows credit risks from specified debtors are relatively remote. The Company maintain a close watch on the financial position and liquidity of the subsidiary and the jointly controlled entity for which financial guarantees have been granted in order to mitigate such risks. The Company take all reasonable steps to ensure that they have appropriate information regarding any claim exposures.

### 3.3 Fair value estimation

The fair value of financial instruments traded in active market is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

In assessing the fair value of financial instruments that are not traded in an active markets, the Group uses a variety of methods and makes assumption that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair values for the remaining financial instruments.

The nominal values less estimated credit adjustments of trade receivable and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 Fair value estimation *(Continued)*

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### (a) Provision for doubtful debts

The Group makes estimates of the uncollectibility of the trade receivables. The Group specifically analyzes trade receivable, historical bad debts, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of its customers were to deteriorate, actual write-offs might be higher than expected, and the Group would be required to revise the basis of making the allowance and its future results would be affected.

### (b) Useful lives of property, plant and equipment

The management of the Group determine the estimated useful lives and related depreciation changes of its property, plant and equipment. This estimate is based on expected usage of the assets and physical wear and tear. The depreciation expense in the future periods will change if there are significant changes from previous estimates.

### (c) Intangible assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. Intangible assets other than goodwill that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculation. These calculations require the use of estimates and judgements including estimating future cash flows, determining appropriate discount rates, estimating the applicable tax rates, foreign exchange rates and interest rates, projecting the future industry trends and market conditions, and making other assumptions. Changes in these estimates and assumptions could affect the determination of the recoverable amount of cash-generating unites.

## 5. SEGMENT INFORMATION

### (a) Primary reporting format – business segments

For the year end 31 December 2005, the Group is organised into three main business segments:

| | |
|---|---|
| Advertising: | Sales of the advertising spaces in the newspapers published by Beijing Youth Daily Newspaper Agency (the "Ultimate Holding Company"). |
| Printing: | Provision of printing services. |
| Trading of print-related materials: | Sales of paper, ink, lubricants, films, PS boards and rubber sheets for printing and other print-related materials. |

The following business segments have been disposed of in August 2004:

| | |
|---|---|
| Distribution: | Distribution of newspapers and magazines mainly published by the Ultimate Holding Company. |
| Others: | Provision of information and web transmission technology services. |

The Group's inter-segment transactions mainly consist of provision of printing services. These transactions were entered into on similar terms as those contracted with third parties.

## 5. SEGMENT INFORMATION *(Continued)*

### (b) Segment results

The segment results for the year ended 31 December 2005 are as follows:

| | Advertising *RMB'000* | Printing *RMB'000* | Trading of print-related materials *RMB'000* | Others *RMB'000* | Group *RMB'000* |
|---|---|---|---|---|---|
| Turnover (including inter- segment) | 590,203 | 388,779 | 176,910 | – | 1,155,892 |
| *Less:* Inter-segment sales | – | (298,285) | – | – | (298,285) |
| Turnover to external customers | 590,203 | 90,494 | 176,910 | – | 857,607 |
| Segment results | 25,119 | 11,974 | 10,026 | – | 47,119 |
| Unallocated other gains, net | | | | | 31,264 |
| Finance costs | | | | | (21,021) |
| Share of losses of a jointly controlled entity | – | – | – | (33,767) | (33,767) |
| Profit before income tax | | | | | 23,595 |
| Income tax expenses | | | | | (7,252) |
| Profit for the year | | | | | 16,343 |
| Capital expenditure | 1,005 | – | 419 | – | 1,424 |
| Depreciation | 2,077 | – | 661 | – | 2,738 |
| Amortization charges | 966 | – | – | – | 966 |
| Other non-cash expenses | 8,439 | – | 3 | – | 8,442 |
| As at 31 December 2005 | | | | | |
| Segment assets | 1,524,741 | 47,295 | 87,170 | – | 1,659,206 |
| Interests in a jointly controlled entity | – | – | – | (71,510) | (71,510) |
| Available-for-sale financial assets | – | – | 2,069 | – | 2,069 |
| Total assets | | | | | 1,589,765 |
| Segment liabilities | 152,791 | 46,611 | 57,185 | – | 256,587 |

## 5. SEGMENT INFORMATION *(Continued)*

### (b) Segment results *(Continued)*

The segment results for the year ended 31 December 2004 are as follows:

| | Advertising *RMB'000* | Printing *RMB'000* | Distribution *RMB'000* | Trading of print-related materials *RMB'000* | Others *RMB'000* | Group *RMB'000* |
|---|---|---|---|---|---|---|
| Turnover (including inter- segment) *(Note 37)* | 898,843 | 403,814 | 84,840 | 153,988 | 27,961 | 1,569,446 |
| *Less:* Inter-segment sales | – | (367,122) | (12,018) | – | – | (379,140) |
| Turnover to external customers | 898,843 | 36,692 | 72,822 | 153,988 | 27,961 | 1,190,306 |
| Segment results | 185,517 | 18,940 | 21,093 | 9,988 | 4,587 | 240,125 |
| Government grant | – | – | – | – | 21,500 | 21,500 |
| Unallocated other gains, net *(Note 37)* | | | | | | 7,015 |
| Loss on sale of discontinued operations | | | | | | (3,210) |
| Finance costs | | | | | | (2,894) |
| Share of losses of a jointly controlled entity | – | – | – | – | (40,293) | (40,293) |
| Share of profits and losses of associated companies | – | – | – | – | 39 | 39 |
| Profit before income tax | | | | | | 222,282 |
| Income tax expenses | | | | | | (16,734) |
| Profit for the year | | | | | | 205,548 |
| Capital expenditure | 996 | 69 | 229 | 34 | 474 | 1,802 |
| Depreciation *(Note 37)* | 1,986 | 467 | 1,726 | 230 | 328 | 4,737 |
| Amortization charges *(Note 37)* | 2,940 | – | – | – | – | 2,940 |
| Other non-cash (income)/expenses | (10) | – | 46 | – | – | 36 |
| As at 31 December 2004 | | | | | | |
| Segment assets | 1,595,524 | 53,251 | – | 40,749 | – | 1,689,524 |
| Interests in a jointly controlled entity | – | – | – | – | (37,743) | (37,743) |
| Available-for-sale financial assets | – | – | – | 2,069 | – | 2,069 |
| Total assets | | | | | | 1,653,850 |
| Segment liabilities | 184,799 | 51,940 | – | 23,620 | – | 260,359 |

## 5. SEGMENT INFORMATION *(Continued)*

The Group operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

## 6. OTHER GAINS – NET

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | | *Note 37* |
| | ***RMB'000*** | *RMB'000* |
| Government grant [1] | **–** | 21,500 |
| Interest income | **26,264** | 6,211 |
| Rental income | **1,865** | 764 |
| Others | **3,135** | 40 |
| | **31,264** | 28,515 |

*Note (1): The amount represented the government grant to the Company in connection with the 2004 China Open Tennis Tournament.*

## 7. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analyzed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | | Restated |
| | ***RMB'000*** | *RMB'000* |
| Depreciation of property, plant and equipment *(Note 14)* | **2,738** | 4,737 |
| Amortization charges | **966** | 2,940 |
| Provision for doubtful debts | **9,613** | – |
| Loss of disposal of property, plant and equipment | **10** | 36 |
| Employee benefit expenses *(Note 13)* | **28,440** | 46,628 |
| Printing costs | **155,378** | 169,002 |
| Cost of inventories | | |
| – printing | **216,080** | 206,675 |
| – trading | **161,160** | 138,932 |
| Operating leases rental in respect of buildings | **1,793** | 3,794 |
| Auditors' remuneration | **5,059** | 2,539 |

## 8. FINANCE COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Interest expenses on bank loans | **749** | 543 |
| Exchange losses | **20,272** | – |
| Others | **–** | 2,351 |
| | **21,021** | 2,894 |

## 9. TAXATION

**(a) Enterprise income tax ("EIT")**

The Group is not subject to Hong Kong profits tax since it has no assessable profit arising in or derived from Hong Kong for the year ended 31 December 2005 (2004: Nil).

In accordance with relevant income tax laws and regulations in the PRC, the companies in the Group are generally subject to EIT at the rate of 33%.

The Company is an enterprise engaged in providing newspaper advertising services in the PRC. In accordance with the approval document issued by the Beijing Local Tax Bureau, Chaoyang Branch, the Company is exempted from EIT for five years starting from 1 January 2004.

Beijing Youth Daily Logistics Co., Ltd. ("BYD Logistics") is an enterprise engaged in printing and trading business. BYD Logistics is subject to EIT at the rate of 33% for the year ended 31 December 2005.

Shanghai Beiqing Printing Machinery Limited ("SHBQ") is an enterprise engaged in printing and trading business and located in Shanghai Zhabei District. SHBQ is subject to EIT at the rate of 33% for the year ended 31 December 2005.

Beijing Leisure Trend Advertising Company ("Leisure Trend") is an enterprise engaged in providing advertising services in the PRC. Leisure Trend is subject to EIT at the rate of 33%.

## 9. TAXATION *(Continued)*

### (a) Enterprise income tax ("EIT") *(Continued)*

The amount of taxation charged to the consolidated income statement represents:

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | | Restated |
| | ***RMB'000*** | *RMB'000* |
| Current taxation – PRC EIT | **7,252** | 12,236 |
| Deferred taxation relating to the reversal of temporary differences | **–** | 4,498 |
| | **7,252** | 16,734 |

The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | | Restated |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **23,595** | 222,282 |
| Calculated at the statutory rate of 33% | **7,786** | 73,353 |
| Effect of EIT exemption applicable to the Company | **(12,490)** | (74,576) |
| Effect of non-taxable investment income | **–** | (13) |
| Effect of tax losses not recognized | **11,814** | 13,297 |
| Expenses not deductible for taxation purposes | **142** | 4,673 |
| Income tax expenses | **7,252** | 16,734 |
| Effective EIT rate | **30.7%** | 7.5% |

### (b) Business tax ("BT")

The applicable BT rate for advertising revenue is generally 5%.

### (c) Value Added Tax ("VAT")

The Group's revenue of printing and trading business are subject to VAT. The applicable tax rate is 17%. Input VAT on purchases of print-related materials and printing service received can be deducted from output VAT. VAT payable is the net difference between output and deductive input VAT.

## 10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB 37,846,000 (2004: RMB 225,309,000).

## 11. DIVIDEND

In the annual general meeting held on 15 June 2005, the shareholders approved the final dividend of RMB 0.39 per ordinary share amounting to a total of RMB 76,951,000 in respect of the year ended 31 December 2004. The amount was accounted for as an appropriation of retained earnings for the year ended 31 December 2005.

At a board meeting held on 23 April 2006, the directors proposed a final dividend of RMB 0.25 per ordinary share amounting to a total of RMB 49,328,000. This proposed dividend is subject to shareholders' approval in their next general meeting. Therefore, the amount is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

## 12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | **For the year ended 31 December** | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the Company | | |
| – Profit of continuing operations | **10,087** | 195,944 |
| – Loss of discontinuing operations | **–** | (1,764) |
| | **10,087** | 194,180 |
| Weighted average number of ordinary shares in issue (thousands) | **197,310** | 148,627 |
| Basic earnings per share (RMB per share) | | |
| – Earnings per share of continuing operations | **0.05** | 1.32 |
| – Loss per share of discontinuing operations | **–** | (0.01) |
| | **0.05** | 1.31 |

For the year ended 31 December 2005, as there were no potentially dilutive shares outstanding, there is no difference between basic and diluted earnings per share.

## 13. EMPLOYEE BENEFIT EXPENSES

| | Group<br>Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Wages and salaries | **20,801** | 29,390 |
| Pension costs – defined contribution plans | **2,172** | 7,860 |
| Others | **5,467** | 9,378 |
| | **28,440** | 46,628 |

**(a) Pensions – defined contribution plans**

All the full time employees of the Group are covered by a state-sponsored pension scheme under which the employees are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group was required to make defined contributions to the pension scheme at the rate of 20% for the year ended 31 December 2005 (2004: 20%) of the employees' basic salaries. Under this scheme, the Group has no obligation for post-retirement benefit beyond the annual contributions.

**(b) Directors' and supervisors' emoluments**

The remuneration of each director and supervisor for the year ended 31 December 2005 is set out below:

| Name of director | Fees | Salary | Discretionary bonuses | Inducement fees | Other benefits (i) | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ZHANG Yanping | – | 458 | – | – | 46 | 15 | 519 |
| ZHANG Yabin | – | 413 | – | – | 9 | 15 | 437 |
| SUN Wei | – | 367 | – | – | 38 | 15 | 420 |
| DU Min | – | 321 | – | – | 39 | 15 | 375 |
| HE Pingping | – | 321 | – | – | 9 | 4 | 334 |
| TSANG Hing Lun | 50 | – | – | – | – | – | 50 |
| WU Changqi | 50 | – | – | – | – | – | 50 |
| LIAO Li | 50 | – | – | – | – | – | 50 |
| LIU Han | 20 | – | – | – | – | – | 20 |
| XU Xun | 20 | – | – | – | – | – | 20 |
| Johannes Louw Malherbe (ii) | 20 | – | – | – | – | – | 20 |

## 13. EMPLOYEE BENEFIT EXPENSE *(Continued)*

### (b) Directors' and supervisors' emoluments *(Continued)*

| Name of supervisor | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Inducement fees RMB'000 | Other benefits (i) RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| LI Shiheng | – | – | – | – | – | – | – |
| HE Daguang | – | – | – | – | – | – | – |
| ZHU Yaoting | – | – | – | – | – | – | – |
| LIU Yanfeng | – | 117 | – | – | 23 | 16 | 156 |
| ZHOU Fumin | – | – | – | – | – | – | – |

The remuneration of each director and supervisor for the year ended 31 December 2004 is set out below:

| Name of director | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Inducement fees RMB'000 | Other benefits (i) RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| ZHANG Yanping | – | – | – | – | – | – | – |
| ZHANG Yabin | – | – | – | – | – | – | – |
| SUN Wei | – | – | – | – | – | – | – |
| DU Min | – | 374 | – | – | 8 | 1 | 383 |
| HE Pingping | – | – | – | – | – | – | – |
| TSANG Hing Lun | – | – | – | – | – | – | – |
| WU Changqi | – | – | – | – | – | – | – |
| LIAO Li | – | – | – | – | – | – | – |
| LIU Han | – | – | – | – | – | – | – |
| XU Xun | – | – | – | – | – | – | – |

| Name of supervisor | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Inducement fees RMB'000 | Other benefits (i) RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| LI Shiheng | – | – | – | – | – | – | – |
| HE Daguang | – | – | – | – | – | – | – |
| ZHU Yaoting | – | – | – | – | – | – | – |
| LIU Yanfeng | – | 125 | – | – | 19 | 14 | 158 |
| ZHOU Fumin | – | – | – | – | – | – | – |

*(i) Other benefits including medical insurance, unemployment insurance and housing fund.*

*(ii) Appointed on 15 June 2005.*

## 13. EMPLOYEE BENEFIT EXPENSE *(Continued)*

**(b) Directors' and supervisors' emoluments** *(Continued)*

In addition to directors' and supervisors' emoluments disclosed above, certain directors and supervisors of the Company receive emoluments from the Ultimate Holding Company, the total amount for the year ended 31 December 2005 was RMB 264,000 (2004: RMB 2,011,000), part of which is in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services rendered to the Group and their services rendered to the Ultimate Holding Company.

**(c) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2004: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: four) individuals during the year are as follows:

| | **Group Year ended 31 December** | |
|---|---|---|
| | **2005** | 2004 |
| | *RMB'000* | *RMB'000* |
| Basic salaries, housing allowances, other allowances and benefits in kind | **1,629** | 1,056 |
| Contributions to retirement schemes | **–** | 5 |
| | **1,629** | 1,061 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2005** | 2004 |
| Emolument bands | | |
| Nil – RMB 1,000,000 | **–** | 4 |
| RMB 1,000,000 – RMB 2,000,000 | **1** | – |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | |
|---|---|---|---|---|
| | **Buildings** *RMB'000* | **Office equipment** *RMB'000* | **Motor vehicles** *RMB'000* | **Total** *RMB'000* |
| **Cost** | | | | |
| Balance at 1 January 2004 | 56,000 | 24,686 | 7,131 | 87,817 |
| Effects of adoption of HKAS 17: | | | | |
| Reclassification of prepayment made for land use rights *(Note 2.6)* | (40,226) | – | – | (40,226) |
| Balance at 1 January 2004, as restated | 15,774 | 24,686 | 7,131 | 47,591 |
| Additions | – | 1,802 | – | 1,802 |
| Disposals | – | (1,397) | (50) | (1,447) |
| Sale of discontinued operation | – | (14,064) | (4,006) | (18,070) |
| Balance at 1 January 2005, as restated | 15,774 | 11,027 | 3,075 | 29,876 |
| Acquisition | – | 200 | – | 200 |
| Additions | – | 428 | 833 | 1,261 |
| Disposals | – | (351) | – | (351) |
| Balance at 31 December 2005 | 15,774 | 11,304 | 3,908 | 30,986 |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2004 | (5,604) | (14,533) | (3,199) | (23,336) |
| Effects of adoption of HKAS 17: | | | | |
| Reclassification of prepayment made for land use rights *(Note 2.6)* | 4,026 | – | – | 4,026 |
| Balance at 1 January 2004, as restated | (1,578) | (14,533) | (3,199) | (19,310) |
| Charge for the year | (829) | (2,880) | (1,028) | (4,737) |
| Disposals | – | 1,355 | 45 | 1,400 |
| Sale of discontinued operation | – | 8,330 | 2,571 | 10,901 |
| Balance at 1 January 2005, as restated | (2,407) | (7,728) | (1,611) | (11,746) |
| Charge for the year | (757) | (1,305) | (676) | (2,738) |
| Disposals | – | 334 | – | 334 |
| Balance at 31 December 2005 | (3,164) | (8,699) | (2,287) | (14,150) |
| **Net book value** | | | | |
| At end of the year 2005 | 12,610 | 2,605 | 1,621 | 16,836 |
| At beginning of the year 2005, as restated | 13,367 | 3,299 | 1,464 | 18,130 |

Depreciation expense of RMB1,608,000 (2004: RMB3,461,000) has been expensed in administrative expenses, RMB802,000 (2004: RMB949,000) in cost of goods sold, RMB328,000 (2004: RMB327,000) in other operating expenses.

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Company | | | |
|---|---|---|---|---|
| | **Buildings** *RMB'000* | **Office equipment** *RMB'000* | **Motor vehicles** *RMB'000* | **Total** *RMB'000* |
| **Cost** | | | | |
| Balance at 1 January 2004 | 56,000 | 9,424 | 528 | 65,952 |
| Effects of adoption of HKAS 17: | | | | |
| Reclassification of prepayment made for land use rights *(Note 2.6)* | (40,226) | – | – | (40,226) |
| Balance at 1 January 2004, as restated | 15,774 | 9,424 | 528 | 25,726 |
| Additions | – | 996 | – | 996 |
| Balance at 1 January 2005, as restated | 15,774 | 10,420 | 528 | 26,722 |
| Additions | – | 291 | – | 291 |
| Disposals | – | (344) | – | (344) |
| Balance at 31 December 2005 | 15,774 | 10,367 | 528 | 26,669 |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2004 | (5,604) | (6,447) | (26) | (12,077) |
| Effects of adoption of HKAS 17: | | | | |
| Reclassification of prepayment made for land use rights *(Note 2.6)* | 4,026 | – | – | 4,026 |
| Balance at 1 January 2004, as restated | (1,578) | (6,447) | (26) | (8,051) |
| Charge for the year | (829) | (1,055) | (86) | (1,970) |
| Balance at 1 January 2005, as restated | (2,407) | (7,502) | (112) | (10,021) |
| Change for the year | (757) | (1,178) | (87) | (2,022) |
| Disposals | – | 334 | – | 334 |
| Balance at 31 December 2005 | (3,164) | (8,346) | (199) | (11,709) |
| **Net book value** | | | | |
| At end of the year 2005 | 12,610 | 2,021 | 329 | 14,960 |
| At beginning of the year 2005, as restated | 13,367 | 2,918 | 416 | 16,701 |

## 15. PREPAYMENT FOR LAND USE RIGHTS

The Group's and Company's interests in land use rights represented prepaid operating lease payments and their net book value are analysed as follows:

| | Group and Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 Restated |
| | ***RMB'000*** | *RMB'000* |
| Outside Hong Kong, held on: | | |
| Leases of between 10 to 50 years | **33,202** | 34,087 |

## 16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Share of net liabilities | **(71,510)** | (37,743) |

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **2,550** | 2,550 |

Summarized financial information of the jointly controlled entity is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Turnover | **31,702** | 39,842 |
| Other revenues | **–** | 12,000 |
| Expense | **(97,911)** | (130,848) |
| Loss for the year | **(66,209)** | (79,006) |

## 16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY *(Continued)*

| | As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Non-current assets | **402,005** | 457,724 |
| Current assets | **65,129** | 66,095 |
| | **467,134** | 523,819 |
| **Liabilities** | | |
| Current liabilities | **260,395** | 194,959 |
| Non-current liabilities | **346,954** | 402,862 |
| | **607,349** | 597,821 |
| Net liabilities | **140,215** | 74,002 |

On 18 March 2006, the Company, China Open Promotions Co., Ltd ("COL"), Media Serv Limited, Media Serv Asia Pacific Limited and Tom Group Limited have agreed to terminate the previous arrangements relating to the organization of the China Open Tennis Tournaments.

On 18 March 2006, the Company, COL, TOM Group Limited, Champion Will International Limited ("Champion"), Swidon Enterprises Limited ("Swidon") and Tennis Tournaments Holdings Limited ("TTHL") have entered into a series of agreements (the "Agreements") regarding the organisation of future China Open Tennis Tournaments. Under the Agreements, Champion and Swidon, as the relevant ATP Tour, Inc ("ATP") and WTA Tour, Inc ("WTA") memberships holders, will grant to COL the exclusive right to use the ATP Tournament Class Membership and WTA Tier II Tour Membership for the organisation of the China Open Tennis Tournaments in Beijing, PRC, once a year from 2006 until 2013. COL will be responsible for the payment of an aggregate ATP and WTA license fees of USD1,200,000 per year to Champion and Swidon.

The Agreements and the termination agreement were effective on 31 March 2006.

## 16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY *(Continued)*

The following are the details of the joint controlled entity at 31 December 2005:

| Company | Country of operation/ establishment and date of incorporation/ establishment | Registered capital *RMB'000* | Effective interests held directly | Type of legal entity | Principal activities |
|---|---|---|---|---|---|
| China Open Promotion Co., Ltd. | The PRC, 11 December 2003 | 5,000 | 51%[(1)] | Limited liability company | Organizing and promoting China tennis tournaments |

The name of the company referred to above represent management's best efforts in translating the Chinese name of the company as no English name has been registered.

*Note:*

(1) COL is a Sino-foreign investment equity joint venture. The Company and the foreign party has joint control over the board of directors of COL and such board is responsible for determining the financial and operating policies of COL in the ordinary course of business.

In accordance with the extended contract signed on 11 August 2005, the Company pledged its fixed term deposits in the sum of RMB56,000,000 as security over a loan facility in the sum of US$6,000,000 or equivalent RMB, which is granted to COL by China Minsheng Banking Corporation Limited. As at 31 December 2005, the borrowing outstanding against the facility amounted to RMB48,600,000.

The Company entered into a guarantee agreement in favour of Media Serv Limited in respect of COL's performance of the obligations under the co-operation agreement entered into between COL and Media Serv Limited and other borrowings of COL.

## 17. INVESTMENTS IN SUBSIDIARIES

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **17,343** | 15,150 |

The following is a list of the principal subsidiaries at 31 December 2005:

| Company | Country of operation/ establishment and date of incorporation/ establishment | Registered capital *RMB'000* | Effective interests held Directly | Indirectly | Type of legal entity | Principal activities |
|---|---|---|---|---|---|---|
| Beijing Youth Daily Logistics Co., Ltd. | The PRC, 15 September 2001 | 30,000 | 50.5% | – | Limited liability company | Warehousing logistics, printing and sales of print-related materials |
| Shanghai Beiqing Printing Machinery Limited | The PRC, 19 October 2002 | 500 | – | 35.35% | Limited liability company | Sales of print-related materials |
| Beijing Leisure Trend Advertising Company | The PRC, 21 February 2002 | 5,000 | 51% | – | Limited liability company | Providing advertising service |

The names of certain companies referred to as above represent management's best efforts in translating the Chinese names of companies as no English names have been registered.

## 18. INVENTORIES

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **59,998** | 54,623 |

For the year ended 31 December 2005, the cost of inventories recognized as expenses and included in cost of sales amounted to RMB377,240,000 (2004: RMB345,607,000). As at 31 December 2005 and 2004, no inventories were stated at net realizable value.

## 19. TRADE RECEIVABLES

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | | Restated |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | | |
| – Due from Ultimate Holding Company | **29,806** | 5,897 |
| – Due from related parties | **18,398** | 7,103 |
| – Due from third parties | **78,781** | 71,356 |
| | **126,985** | 84,356 |
| *Less:* provision for doubtful debts | **(9,970)** | (357) |
| Trade receivables – net | **117,015** | 83,999 |

The aging analysis of trade receivables is as follows:

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **68,619** | 47,292 |
| 4 months to 6 months | **14,177** | 30,720 |
| 7 months to 12 months | **6,374** | 5,757 |
| 1 year to 2 years | **37,238** | 85 |
| Over 2 years | **577** | 502 |
| | **126,985** | 84,356 |

## 19. TRADE RECEIVABLES *(Continued)*

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | | |
| – Due from subsidiaries | **541** | – |
| – Due from related parties | **6,110** | 775 |
| – Due from third parties | **55,171** | 57,278 |
| | **61,822** | 58,053 |
| *Less:* provision for doubtful debts | **(9,951)** | (357) |
| Trade receivables – net | **51,871** | 57,696 |

The aging analysis of trade receivable is as follows:

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **13,968** | 21,515 |
| 4 months to 6 months | **10,039** | 30,194 |
| 7 months to 12 months | **–** | 5,757 |
| 1 year to 2 years | **37,238** | 85 |
| Over 2 years | **577** | 502 |
| | **61,822** | 58,053 |

The normal credit period granted by the Group and the Company to customers (including related parties but except for certain advertising agents of classified advertisements) ranges from 1 week to 3 months.

In 2004, the Group and the Company extended the credit terms to certain advertising agents of classified advertisements, which allow them to settle the outstanding balances by 31 December 2006.

## 20. OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Interest receivable | **9,015** | 1,201 |
| Global Offering proceeds | **–** | 58,611 |
| Government grant | **–** | 21,500 |
| Other receivables | **3,087** | 4,930 |
| | **12,102** | 86,242 |

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Interest receivable | **9,015** | – |
| Global Offering proceeds | **–** | 58,611 |
| Government grant | **–** | 21,500 |
| Other receivables | **1,431** | 4,147 |
| | **10,446** | 84,258 |

## 21. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent fixed-term deposits in the sum of RMB56,000,000, which were pledged as security over a loan facility in the sum of US$6,000,000. The loan facility is granted to COL by China Minsheng Banking Corporation Limited.

## 22. SHORT-TERM BANK DEPOSITS

Short-term bank deposits consist of fixed-term deposits denominated in HKD with original maturities ranging from more than three months to one year.

The weighted average interest rate was 3.13% per annum for the year ended 31 December 2005 (2004: 1.94%).

## 23. CASH AND CASH EQUIVALENTS

The Group's bank balances and cash included RMB261,597,000 denominated in RMB and RMB23,136,000 denominated in HKD deposited with banks in the PRC.

The Company's bank balances and cash included RMB251,888,000 denominated in RMB and RMB23,136,000 denominated in HKD deposited with banks in the PRC.

## 24. TRADE PAYABLES

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | | Restated |
| | ***RMB'000*** | *RMB'000* |
| Trade payable | | |
| – Due to the Ultimate Holding Company | **6,712** | 16,906 |
| – Due to related parties | **41,534** | 35,652 |
| – Due to third parties | **17,279** | 2,275 |
| | **65,525** | 54,833 |

The balance of trade payables to related parties as at 31 December 2005 includes notes payables of RMB8,939,000 (2004: RMB12,271,000).

The aging analysis of trade payables is as follows:

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **61,772** | 33,584 |
| 4 months to 6 months | **2,969** | 8,012 |
| 7 months and 12 months | **91** | 12,893 |
| 1 year to 2 years | **350** | – |
| Over 2 years | **343** | 344 |
| | **65,525** | 54,833 |

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables | | |
| – Due to the Ultimate Holding Company | **6,711** | 14,021 |
| – Due to subsidiaries | **30,378** | 32,981 |
| – Due to related parties | **867** | – |
| – Due to third parties | **–** | 1,731 |
| | **37,956** | 48,733 |

The trade payables of the Company are all aged within 3 months.

## 25. OTHER PAYABLES AND ACCRUALS – GROUP AND COMPANY

As at 31 December 2005, included in other payables and accruals is an amount of RMB92,451,000 (2004: RMB94,536,000) denominated in HKD 88,909,000 (2004: HKD 88,909,000) which represents the proceeds from the sale of shares in Global Offering by three shareholder ("Selling Shareholder") which are PRC state owned entities, such proceeds were received by the Company on behalf of the Selling Shareholder. Pursuant to the relevant PRC government requirement, such proceeds will be remitted to the national social security fund.

## 26. TAXATION PAYABLES

| | **Group** | |
|---|---|---|
| | **As at 31 December** | |
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| EIT | **3,745** | 4,655 |
| VAT | **(1,046)** | 492 |
| BT | **1,981** | 4,225 |
| City Construction tax | **184** | 365 |
| Individual Income tax | **259** | 192 |
| | **5,123** | 9,929 |

| | **Company** | |
|---|---|---|
| | **As at 31 December** | |
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| BT | **1,806** | 4,216 |
| City Construction tax | **148** | 362 |
| Individual Income tax | **231** | 164 |
| | **2,185** | 4,742 |

## 27. SHORT-TERM BANK LOAN

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Bank loan – unsecured | **20,000** | 10,000 |

For the year ended 31 December 2005, the bank loan bore interests at the rate of 5.58% (2004: 5.31%) per annum and was repayable within one year. The loan was guaranteed by the Company.

## 28. SHARE CAPITAL

| | Group As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Registered, issued and fully paid | | |
| – Domestic Shares of RMB1.00 each | **142,409** | 142,409 |
| – H Shares of RMB1.00 each | **54,901** | 54,901 |
| | **197,310** | 197,310 |

All the Domestic Shares and H Shares rank pari passu in all material respects.

## 29. RETAINED EARNINGS AND RESERVES

In accordance with the relevant PRC regulations and the articles of association of the Company, the companies comprising the Group is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards ("PRC GAAP") every year to a statutory surplus reserve until the balance reaches 50% of the registered share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered share capital.

In accordance with the relevant PRC regulations and the articles of association of the Company, the companies comprising the Group are required to transfer between 5% to 10% of the profit after taxation determined in accordance with the PRC GAAP to a statutory public welfare fund every year. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Company. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, and equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

## 29. RETAINED EARNINGS AND RESERVES *(Continued)*

For the year ended 31 December 2005, the Board of Directors of the Company proposed appropriations of 10% and 10% of profit after tax (2004: 10% and 10%) respectively determined under PRC GAAP of RMB6,761,000 and RMB6,761,000 (2004: RMB23,734,000 and RMB23,734,000) to the statutory surplus reserve fund and the statutory public welfare funds respectively. Moreover, the subsidiaries of the Company also proposed certain percentage of profit after tax of each company in accordance with PRC regulations and individual subsidiaries' articles of associations.

In accordance with the articles of association of the Company, retained earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with HKFRS. As at 31 December 2005, the amount of retained earnings available for distribution was approximately RMB138,906,000 (2004: RMB191,533,000), being the amount determined in accordance with the HKFRS.

The movements of retained earnings and surplus reserves of the Company are as follows:

| | Capital reserve<br>*RMB'000* | Statutory surplus reserve<br>*RMB'000* | Statuary public welfare fund<br>*RMB'000* | Retained earnings<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| As at 1 January 2004 | – | 31,767 | 31,768 | 231,367 | 294,902 |
| Profit attributable to shareholders | – | – | – | 225,309 | 225,309 |
| Dividends | – | – | – | (171,535) | (171,535) |
| Transfer to share capital | – | – | – | (46,140) | (46,140) |
| Issue of shares | 896,313 | – | – | – | 896,313 |
| Appropriation to statutory reserves | – | 23,734 | 23,734 | (47,468) | – |
| As at 31 December 2004 | 896,313 | 55,501 | 55,502 | 191,533 | 1,198,849 |
| As at 1 January 2005 | 896,313 | 55,501 | 55,502 | 191,533 | 1,198,849 |
| Profit attributable to shareholders | – | – | – | 37,846 | 37,846 |
| Dividends | – | – | – | (76,951) | (76,951) |
| Appropriation to statutory reserves | – | 6,761 | 6,761 | (13,522) | – |
| Others | (216) | – | – | – | (216) |
| **As at 31 December 2005** | **896,097** | **62,262** | **62,263** | **138,906** | **1,159,528** |

## 30. LONG-TERM LIABILITIES

| | Group and Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| One-off housing subsidies | **8,020** | 8,020 |
| *Less:* current portion of long-term liabilities | **(8,020)** | (2,740) |
| | **–** | 5,280 |

The balances represent one-off housing subsidies owed to eligible employees working for the Company. Employees hired by state owned enterprises before 31 December 1996 were entitled to one-off housing subsidy plan as promulgated by the Beijing Municipal Government. In accordance with this plan, the enterprises should provide staff quarters with prescribed standard for the eligible employees. The standard varies with the employees' years of working with the enterprises. If the enterprises are unable to provide staff quarters with prescribed standard for the employees, one-off housing subsidy should be paid to the employees based on a standard formula stipulated in the relevant regulations. Upon incorporation of the Company, certain employees were transferred from the Ultimate Holding Company to the Company. The Company agreed to undertake the liability of paying one-off housing subsidy to these employees. The total amount of the liability was approximately RMB20,447,000. RMB12,427,000 among the balance has been paid in 2004 or before. The remaining balance will be paid before 31 December 2006.

## 31. CASH GENERATED FROM OPERATIONS

| | Group | |
|---|---|---|
| | Year ended 31 December | |
| | **2005** | 2004 |
| | | Restated |
| | ***RMB'000*** | *RMB'000* |
| Profit for the year | **16,343** | 205,548 |
| Adjustments for: | | |
| – Tax | **7,252** | 16,734 |
| – Depreciation *(Note 14)* | **2,738** | 4,737 |
| – Amortization | **966** | 2,940 |
| – Loss on sale of property, plant and equipment | **10** | 36 |
| – Provision for doubtful debts | **9,613** | – |
| – Impairment of goodwill | **357** | – |
| – Interest income *(Note 6)* | **(23,527)** | (6,211) |
| – Interest expenses *(Note 8)* | **749** | 543 |
| – Share of losses of a jointly controlled entity | **33,767** | 40,293 |
| – Share of profits from associated companies | **–** | (39) |
| – Exchange losses *(Note 8)* | **20,272** | – |
| Changes in working capital (excluding the effects of acquisition): | | |
| – Loss on disposal of discontinued operations | **–** | 3,210 |
| – Inventories | **(5,367)** | (19,904) |
| – Trade receivables | **(42,629)** | (62,387) |
| – Other receivables, prepayments and deposits | **27,884** | 16,041 |
| – Trade payables | **10,692** | 598 |
| – Taxation payables | **(3,913)** | (6,384) |
| – Other payables and long-term liabilities | **4,886** | (32,703) |
| Cash generated from operations | **60,093** | 163,052 |

## 32. CONTINGENCIES

| | Group | |
|---|---|---|
| | As at 31 December | |
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Guarantees for bank loans of a jointly controlled entity | **56,000** | 72,553 |

## 32. CONTINGENCIES *(Continued)*

| | Company As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Guarantees for bank loans of a jointly controlled entity | **56,000** | 72,553 |
| Guarantee for bank loan of a subsidiary | **20,000** | 10,000 |
| Guarantee for credit line facility of a subsidiary | **30,000** | 40,000 |

In accordance with the extended contract signed on 11 August 2005, the Company pledged its fixed term deposits in the sum of RMB56,000,000 as security over a loan facility in the sum of US$6,000,000 or equivalent RMB, which is granted to COL by China Minsheng Banking Corporation Limited. As at 31 December 2005, the borrowing outstanding against the facility amounted to RMB48,600,000.

On 26 August 2005, the Company provided a loan guarantee in the amount of RMB20,000,000, in favour of the China CITIC Bank on a bank loan to BYD Logistic.

On 26 August 2005, the Company provided a guarantee in the amount of RMB30,000,000 in favour of the provider of a RMB30,000,000 credit line facility to BYD Logistics.

Management anticipates that no material liabilities will arise from the above guarantees which arose in the ordinary course of business.

## 33. COMMITMENTS

**Capital commitments**

The Group and the Company did not have any significant commitments outstanding as at 31 December 2005 (2004: Nil).

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

| | As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Not later than 1 year | **1,315** | 525 |
| Later than 1 year and not later than 5 years | **–** | 328 |
| | **1,315** | 853 |

## 34. RELATED-PARTY TRANSACTIONS

The related parties of the Company and its subsidiaries that had transactions with the Company and its subsidiaries are as follows:

| Name of related parties | Nature of relationship |
|---|---|
| Beijing Youth Daily Newspaper Agency | Ultimate Holding Company |
| Beijing Today Sunshine Advertising Co., Ltd | A subsidiary of the Ultimate Holding Company |
| Beijing Gehua Sunshine Advertising Co., Ltd | A subsidiary of the Ultimate Holding Company |
| Beijing Beiqing Advertising Limited | A subsidiary of the Ultimate Holding Company |
| Beijing Youth & Ynet Advertising Co., Ltd | A subsidiary of the Ultimate Holding Company |
| Beijing XiaoHongMao Newspapers and Periodicals Distribution Services Company Limited | A subsidiary of the Ultimate Holding Company |
| China Open Promotion Company Limited | A jointly controlled entity of the Company |
| Xin Hua Net printery | A minority shareholder |
| Workers Daily | A minority shareholder |
| Beijing Min Yi Printing Technology Services Company | A minority shareholder |
| Beijing Ke Yin Printing Technology Service Company | A minority shareholder |
| ShangHai ShengLian Printing Technology Services Company | A minority shareholder |
| State-owned enterprises | Related parties of the Company |

The names of companies referred to as above represent management's best efforts in translating the Chinese names of these companies as no English names have been registered.

The Ultimate Holding Company itself is a state-owned enterprise controlled by the PRC government. As the Group is controlled by the Ultimate Holding Company, it is considered to be indirectly controlled by the PRC government. In accordance with HKAS 24, "Related Party Disclosure", state-owned enterprise and their subsidiaries, other than the Ultimate Holding Company, directly or indirectly controlled by the PRC government are also deemed as related parties of the Group ("Other State-Owned Enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multilayered corporate structure and the ownership structures change over time as a result of transfers and privatization programmes. Due to the pervasiveness of the Group's retail transactions with the entities' employees on corporate business, their key management personnel and close family members, and other related parties, there is no feasible way to track such transactions and ensure the completeness of certain disclosure. Nevertheless, management believes that meaningful information relative to related-party transactions with these Other State-Owned Enterprises has been disclosed.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its subsidiaries and their related parties during the year 2005 and balances arising from related party transactions at the end of the year 2005.

## 34. RELATED-PARTY TRANSACTIONS *(Continued)*

### (a) Related party balances

Included in the consolidated balance sheet, the balances with related parties are as follows:

| | As at 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| The Ultimate Holding Company | | |
| Trade receivables | **29,806** | 5,897 |
| Trade payables | **6,712** | 16,906 |
| Other payable and accruals | **1,990** | – |
| Subsidiaries of the Ultimate Holding Company | | |
| Trade receivables | **6,110** | 775 |
| Trade payables | **867** | – |
| Associates of Ultimate Holding Company | | |
| Trade receivables | **4,366** | – |
| Trade payables | **115** | – |
| Minority Shareholders | | |
| Trade receivables | **2,029** | 1,199 |
| Other receivables, prepayments and deposits | **20** | 34 |
| Trade payables | **77** | 12,355 |
| Other payables and accruals | **8,893** | 718 |
| Other State-Owned Enterprises | | |
| Trade receivables | **5,893** | 5,129 |
| Other receivables, prepayment and deposits | **231** | 1,201 |
| Restricted bank deposits | **56,000** | 56,000 |
| Short-term bank deposits | **1,073,933** | 43,030 |
| Cash and cash equivalents | **283,149** | 1,308,107 |
| Trade payables | **40,475** | 23,297 |
| Other payables and accruals | **92,451** | 94,536 |
| Short-term bank loan | **20,000** | 10,000 |

Except for bank balances and cash, and short-term bank loan stated above, all balances of assets and liabilities are unsecured, non-interest bearing and receivable or repayable within one year.

## 34. RELATED-PARTY TRANSACTIONS *(Continued)*

### (b) Related party transactions

| | | For the year ended 31 December | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| The Ultimate Holding Company | | | |
| Exclusive advertising right expenses | *(i)* | **96,582** | 138,116 |
| Provision of printing services | *(ii)* | **79,795** | 31,401 |
| Rental income | *(iii)* | **3,426** | 1,513 |
| Sales of print-related materials | *(iv)* | **5,359** | – |
| Subsidiaries of the Ultimate Holding Company | | | |
| Provision of advertising services | *(v)* | **32,580** | 29,086 |
| Payment for delivery services | *(vi)* | **8,125** | 4,124 |
| Joint controlled entity | | | |
| Rental income | *(iii)* | **131** | – |
| Minority Shareholders | | | |
| Sales of print-related materials | *(vii)* | **37,479** | 31,353 |
| Payment for printing services | *(viii)* | **59,533** | 76,203 |
| Purchase of print-related materials | *(ix)* | **9,664** | 10,097 |
| Other State-Owned Enterprises | | | |
| Sales of print-related materials | | **59,533** | 58,684 |
| Payment of printing services | | **65,912** | 62,904 |
| Purchase of inventory | | **194,149** | 222,815 |
| Interest income | | **26,264** | 6,211 |

(i) Pursuant to the fee agreement entered into between the Company and the Ultimate Holding Company on 7 December 2004, the Company would pay 16.5% of the advertising revenue to the Ultimate Holding Company from 1 October 2004 to 30 September 2033.

(ii) BYD Logistic, the subsidiary of the Company provided printing services to Beijing Sec-Tech Report, Legal Evening Post and other newspapers and magazines which are operated by the Ultimate Holding Company.

(iii) The Company rents certain offices situated in the Beijing Youth Daily Agency Building from 1 August 2004 to 31 July 2007 with an annual rental fee of RMB3,426,000. In addition, COL rents offices from 30 May 2005 to 29 May 2006 with an annual rental fee of RMB131,400.

## 34. RELATED-PARTY TRANSACTIONS *(Continued)*

**(b) Related party transactions** *(Continued)*

(iv) BYD Logistics sold print-related materials to Beijing Youth Weekly which is operated by the Ultimate Holdings Company.

(v) The Company provided advertising services to certain subsidiaries of the Ultimate Holding Company.

(vi) The Group received direct mail advertisement delivery services from Beijing XiaoHongMao Newspapers and Periodicals Distribution Services Company Limited.

(vii) BYD Logistics sold print-related materials to certain of its minority shareholders.

(viii) BYD Logistics received printing services from certain of its shareholders.

(ix) BYD Logistics purchased print-related materials from certain minority shareholders.

In the directors' opinion, the related party transactions mentioned above were all conducted in the normal course of business of the Group and at terms mutually agreed between the Group and the respective related parties.

**(c) Loan guarantee**

The Company pledged fixed term deposits in the sum of RMB56,000,000 as security over a loan facility of US$6,000,000 granted to COL by a bank.

**(d) Key management personal compensation**

| | Year ended 31 December | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and other short-term employee benefits | **4,172** | 763 |

## 35. ACQUISITION OF A SUBSIDIARY

On 24 May 2005, the Group acquired 51% of Leisure Trend at a cash consideration of RMB2,550,000.

## 36. EVENTS AFTER THE BALANCE SHEET DATE

On 13 February 2006, the Company has entered into the arrangement with Hebei Youth Daily Newspaper Agency for the establishment of Heqing Media Corporation Limited ("HMCL"). The Company owns 60% equity interests of HMCL. Pursuant to the arrangement, the Company will initially make a RMB18 million equity investment into HMCL and will be responsible for procuring a further funding of up to a further RMB32 million as working capital if needed.

On 20 March 2006, the Company entered into a pledge agreement with China Minsheng Banking Corporation Limited, pursuant to which the Company pledged its fixed term deposits in the sum of RMB101,200,000 as security over a credit line facility in the sum of RMB71,000,000, which is granted to COL by China Minsheng Banking Corporation Limited.

## 37. COMPARATIVE FIGURES

Certain comparative figures presented in these financial statements were adjusted for the impact of the relevant new HKFRS, as set out in Note 2. Moreover, certain prior year comparative figures have been reclassified to conform to the current year's presentation.