NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 REORGANISATION

Qin Jia Yuan Media Services Company Limited (the "Company") was incorporated in the Cayman Islands on 29 October 2002 as an exempted company with limited liability under the Companies Law (Revised) Chapter 22 of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), which was complete on 17 November 2003 to rationalise the group structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries, details of which are set out in note 16 on the financial statements. The shares of the Company have been listed on the Stock Exchange since 30 June 2004.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group throughout the periods presented, rather than from 17 November 2003. Accordingly, the consolidated results of the Group for the years ended 30 September 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 October 2002 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 30 September 2003 is a combination of the balance sheets of the Company and its subsidiaries at 30 September 2003. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

Further details of the Reorganisation are set out in the prospectus dated 18 June 2004 issued by the Company.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets

(i) Fixed assets are carried in the balance sheet at cost less accumulated depreciation (note 3(g)) and impairment losses (note 3(h)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(e) Licence rights

Licence rights are stated at cost less impairment losses (note 3(h)), where appropriate.

(f) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the respective lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

– land and buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases;

– props and costumes are depreciated on a straight-line basis over their estimated useful lives of 3 years, except for costs of props and costumes which are specifically purchased for the production of a particular television ("TV") programme is included in the cost of services rendered in connection with the production of that particular TV programme;

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	3–6 years
Furniture and fixtures, and computer equipment	3–5 years
Production equipment	5 years
Motor vehicles	5 years

No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and film rights may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Accounts receivable

Accounts receivable, the credit terms of which vary with the terms specified in each contract entered into with customers, are recognised and carried in the balance sheet at the original invoice amount less provision for doubtful debts which is made to the extent that the debts are considered to be doubtful. Bad debts are written off as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Reimbursements receivable

Funds advanced for the production of TV programmes are stated at cost less any irrecoverable amounts. Cost represents the original amounts of funds advanced for the production, including funding advanced for the preliminary preparation work for the production of programmes that may or may not be eventually filmed. When it is probable that the total amount of funding advanced in respect of a programme will exceed the total revenue arising from such programme, the expected loss is recognised as an expense immediately. When the outcome of the programme cannot be estimated reliably, the related advances are recognised as expenses in the period in which they are incurred.

(k) Cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.

Employees of the subsidiaries established in the People's Republic of China ("PRC") participate in defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the plans at fixed rates of the relevant employees' salary costs.

The Group's contributions to these plans are charged to the income statement when incurred. The Group has no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax (Continued)

(iii) (continued)

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Dividends

Dividends are recognised as liabilities in the accounting period in which they are declared by the directors (for interim dividends) or approved by the shareholders (for final dividends).

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Contract income

Contract income includes commission income from introduction of funding from investors to production houses and commission income from introduction of TV programme related investments to investors. Commission income is recognised when the broadcasting schedule of the relevant television commercial airtime is confirmed by major television stations, such as provincial TV stations and/or those with satellite broadcasting capabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Revenue recognition (Continued)

(ii) Service income

Service income is derived from the provision of marketing and consulting services to investors, ancillary services relating to production of TV programme to production houses, and public relations services. Service income is recognised when the services are rendered.

(iii) Licence fees

Fees from granting of distribution licence rights are recognised over the contract period or upon delivery of the master tape of the relevant programmes in accordance with the terms of the contracts.

(iv) Costume rental

Costume rental receivable under operating leases is recognised in equal instalments over accounting periods covered by the respective lease terms, except where an alternative basis is more representative of the patterns of benefits to be derived from the leased assets. Contingent rentals are recognised as income in the accounting period in which they are earned.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(s) Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

(t) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No analysis of the Group's turnover and contribution to profit from operations by geographical segment or business segment has been presented as most the Group's operating activities are carried out in the PRC and less than 10 per cent of the Group's turnover and contribution to profit from operations are derived from activities outside the Group's media related services. There is no other geographical or business segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

4 TURNOVER

The Group is principally engaged in the provision of media services including TV programme related services and marketing related services to advertising agencies in the PRC, and other public relations services.

Pursuant to the terms of agreements entered into by the Group and PRC TV production houses, the Group is entitled to commission for procuring funding for the production of TV programmes.

Pursuant to the terms of agreements entered into by the Group and licensed PRC advertising companies, the Group is entitled to commission for the procurement of TV programmes for investment.

In addition, the Group provides other value-added services such as script editing of TV programmes, public relations services, procurement of filming artists, and product promotional services to advertisers, advertising firms and television stations.

In the course of the provision of TV programme related services and marketing related services, the Group has been granted certain distribution licence rights for TV programmes. The Group also purchases similar distribution licence rights directly from other rights holders. The Group earns licence fees by granting such rights to film or TV programme trading companies.

Turnover represents TV programme related, marketing related and public relations service income, net of PRC business tax. The amount of each significant category of revenue recognised in turnover for year is as follows:

	2004 **$'000**	2003 $'000
TV programme related income	**33,898**	30,491
Marketing related income	**14,817**	13,961
Public relations service income	**36,748**	11,755
	85,463	56,207

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 OTHER REVENUE

	2004 $'000	2003 $'000
Interest income	54	57
Others	297	23
	351	80

6 OTHER NET LOSS

	2004 $'000	2003 $'000
Loss on disposal of a fixed asset	18	–
Exchange loss	12	13
	30	13

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2004 $'000	2003 $'000
Finance costs		
Interest on bank advances and other borrowings repayable within five years	2,439	2,065
Interest on other loans repayable within five years	2	180
Other borrowing costs	182	–
	2,623	2,245
Staff costs		
Salaries, wages and bonuses	3,120	1,923
Staff welfare	600	326
Contributions to defined contribution plans	68	30
	3,788	2,279
Other items		
Depreciation	2,316	1,748
Auditors' remuneration	701	458
Operating lease charges in respect of		
– properties	468	355
– motor vehicles	–	45

8 INCOME TAX

(a) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong profits tax during the year.

(b) Income tax in the consolidated income statement represents the provision of PRC income tax as follows:

– Profits of the subsidiaries established in the PRC are subject to PRC income tax. Provision for PRC income tax in respect of these subsidiaries has been made for the year, calculated at 15% which is the tax rate applicable to foreign investment enterprises located and operated in Shenzhen.

– Under the existing PRC tax laws and regulations, a foreign enterprise which carries on business with establishment in the PRC is generally subject to enterprise income tax at 33%. Accordingly, provision for PRC income tax in respect of a subsidiary has been calculated at the applicable tax rate of 15% or 33% on a deemed profit basis on its PRC sourced income during the year.

(c) **Reconciliation between tax expense and accounting profit at applicable tax rate is as follows:**

	2004 $'000	2003 $'000
Profit before tax	51,967	38,639
Tax at the domestic rate of 33%	17,149	12,751
Difference in income tax rate applicable to different jurisdictions	(9,365)	(4,034)
Tax effect of non-deductible expenses	364	732
Tax effect of non-taxable income	(7,447)	(6,674)
Tax effect of unused tax losses not recognised	905	–
Actual tax expenses	1,606	2,775

8 INCOME TAX (Continued)

(d) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation $'000	Tax losses $'000	Total $'000
At 1 October 2002	88	(88)	–
Charged/(credited) to consolidated income statement	26	(26)	–
At 30 September 2003	114	(114)	–
At 1 October 2003	114	(114)	–
(Credited)/charged to consolidated income statement	(73)	73	–
At 30 September 2004	41	(41)	–

(e) Deferred tax assets not recognised:

At 30 September 2004, the Group has not recognised deferred tax assets in respect of tax losses of $14,680,000 (2003: $8,646,000) as it is not probable that there will be sufficient taxable profits available against which the unused tax losses can be utilised. The tax losses do not expire under the current tax legislation.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 $'000	2003 $'000
Fees	1,000	–
Basic salaries, housing and other allowances and benefits in kind	4,543	3,082
Discretionary bonuses	75	–
Retirement scheme contributions	12	12

The directors' remuneration fell within the following bands:

	2004 Number of directors	2003 Number of directors
Not more than $1,000,000	11	4
$1,000,001 – $1,500,000	–	–
$1,500,001 – $2,000,000	–	–
$2,000,001 – $2,500,000	–	–
$2,500,001 – $3,000,000	–	–
$3,000,001 – $3,500,000	–	1
$3,500,001 – $4,000,000	–	–
$4,000,001 – $4,500,000	1	–
	12	5

Included in the directors' remuneration were fees of $1,000,000 paid to 7 non-executive directors and 3 independent non-executive directors during the year.

No emoluments were paid by the Group to the directors or any of the five highest paid individuals (note 10 below) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 30 September 2004 and 2003.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals of the Group include 1 (2003: 1) director of the Company whose emoluments are disclosed in note 9 above. The aggregate of the emoluments in respect of the other 4 (2003: 4) individuals is as follows:

	2004 $'000	2003 $'000
Basic salaries, housing and other allowances and benefits in kind	1,158	935
Discretionary bonuses	–	69
Retirement scheme contributions	20	21
	1,178	1,025

The emoluments of the above 4 (2003: 4) individuals fell within the band of not more than $1,000,000.

During the year, no amounts were paid or payable to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of $12,975,000 (2003: loss of $28,000) which has been dealt with in the financial statements of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 DIVIDENDS

(a) Dividends attributable to the year

	2004 $'000	2003 $'000
Final dividend proposed after the balance sheet date of HK2.9 cents per share	11,600	–
Interim dividend declared and paid	–	7,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	2004 $'000	2003 $'000
Final dividend in respect of the previous financial year	–	6,000

The dividend per share and the number of shares ranking for dividend for the year ended 30 September 2003 are not presented above as such information is not meaningful having regard to the consolidated financial statements.

13 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $50,361,000 (2003: $36,041,000) and the weighted average number of 325,683,060 (2003: 300,000,000) ordinary shares outstanding after the Reorganisation and the capitalisation issue (note 28(e)) as if those shares had been outstanding from 1 October 2002.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 30 September 2003 and 2004.

14 RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF is a defined contribution retirement scheme managed by an independent approved MPF trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement plan (the "Plan") organised by the local government authorities whereby the subsidiaries are required to contribute to the Plan to fund the retirement benefits of the eligible employees. Contributions made to the Plan are calculated at a range from 9% to 22.5% of the basic salaries of the eligible employees. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Plan.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

NOTES ON THE FINANCIAL STATEMENTS

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15 FIXED ASSETS

	Land and buildings $'000	Construction in progress $'000	Leasehold improvements $'000	Furniture, fixtures and other fixed assets $'000	Production Equipment $'000	Props and costumes $'000	Total $'000
Cost:							
At 1 October 2003	7,277	9,305	1,333	2,252	1,288	2,787	24,242
Additions	–	334	578	461	306	6,022	7,701
Disposal	–	–	–	(19)	–	–	(19)
Transfer	9,639	(9,639)	–	–	–	–	–
At 30 September 2004	**16,916**	**–**	**1,911**	**2,694**	**1,594**	**8,809**	**31,924**
Accumulated depreciation:							
At 1 October 2003	51	–	535	465	751	726	2,528
Charge for the year	183	–	389	525	288	931	2,316
Written back on disposal	–	–	–	(1)	–	–	(1)
At 30 September 2004	**234**	**–**	**924**	**989**	**1,039**	**1,657**	**4,843**
Net book value:							
At 30 September 2004	**16,682**	**–**	**987**	**1,705**	**555**	**7,152**	**27,081**
At 30 September 2003	7,226	9,305	798	1,787	537	2,061	21,714

The analysis of net book value of land and buildings is as follows:

	The Group 2004 $'000	The Group 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Held in Hong Kong under medium term lease	**7,092**	7,226	**–**	–
Held outside Hong Kong in the PRC under long term lease	**9,590**	9,305	**–**	–
	16,682	16,531	**–**	–

15 FIXED ASSETS (Continued)

Land and buildings held by certain subsidiaries with carrying value of $16,682,000 (2003: $7,226,000) as at 30 September 2004 were pledged as security for a bank loan facility of RMB20,000,000 (2003: RMB20,000,000) of which $18,849,000 (2003: $9,260,000) was utilised as at 30 September 2004 (note 26), as well as mortgage bank loans of $6,731,000 (2003: $6,967,000) (note 26).

Construction in progress represents the costs of acquiring two properties situated in Shanghai. As at 30 September 2003, the completion certificates had not been issued by the relevant authorities in the PRC. In May 2004, the completion certificates were obtained and the properties were transferred to land and buildings during the year ended 30 September 2004.

16 INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	$'000	$'000
Unlisted shares, at cost	60,943	–
Amount due from a subsidiary	82,430	–
Amounts due to subsidiaries	(1,938)	–
	141,435	–

Balances with the subsidiaries are unsecured, interest free and have no fixed terms of repayment. Details of the principal subsidiaries as at 30 September 2004 are as follows.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 INTERESTS IN SUBSIDIARIES (Continued)

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment	Place of operation	Proportion of attributable equity interest held Directly	Indirectly	Issued share capital/ registered capital	Principal activity
Sunny World Management Limited	British Virgin Islands	PRC	100%	–	US$2	Provision of media services including TV programme related services and marketing related services to advertising agency in the PRC, and other public relations services
Communication and You Holdings Company Limited	Hong Kong	PRC and Hong Kong	–	75%	$100	Provision of production equipment for use by group companies
Qin Jia Yuan Shares Company Limited	British Virgin Islands	Hong Kong	100%	–	US$1	Investment holding
Qin Jia Yuan Advertising Company Limited	British Virgin Islands	PRC	100%	–	US$2	Investment holding
Qin Jia Yuan Marketing (Shenzhen) Limited *	PRC	PRC	–	100%	$1,000,000	Provision of market research and broadcasting report for advertisers

16 INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment	Place of operation	Proportion of attributable equity interest held Directly	Indirectly	Issued share capital/ registered capital	Principal activity
Qin Jia Yuan Production Service (Shenzhen) Limited *	PRC	PRC	–	100%	$1,000,000	Provision of costumes and image design services
Happily Development Limited	Hong Kong	PRC	100%	–	$2	Property investment
Amazing Investments Limited	Hong Kong	PRC	100%	–	$2	Property investment
Qin Jia Yuan Publishing Company Limited	Hong Kong	Hong Kong	100%	–	$4	Holding trademark
Qin Jia Yuan Cultural Assets (Hong Kong) Limited	Hong Kong	Hong Kong	100%	–	$94	Property investment

* Wholly foreign owned enterprises established in the PRC.

The above list gives the details of principal subsidiaries of the Group which, in the opinion of the directors, materially affect the profit or assets of the Group.

17 LICENCE RIGHTS

	2004 $'000	2003 $'000
At 1 October	–	–
Additions	9,630	–
At 30 September	9,630	–

18 ACCOUNTS RECEIVABLE

Included in accounts receivable are debtors (net of provision for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2004	2003
	$'000	$'000
Accounts receivable	**33,528**	39,210
Less: Amount expected to be recovered after more than one year, included as non-current assets	**(15,626)**	(8,429)
	17,902	30,781

	2004	2003
	$'000	$'000
Analysed as:		
Current to due within 6 months	**11,093**	30,769
Due over 6 months but less than 1 year	**6,747**	–
Due over 1 year but less than 2 years	**62**	12
	17,902	30,781

The credit terms offered by the Group are in accordance with the terms specified in each agreement entered into with the relevant customers, ranging from six months to one year. Subject to negotiations, extended credit terms are available for certain major customers with well-established operating records. Amounts to be recovered after more than one year based on repayment schedules agreed with the relevant customers have been included as non-current assets.

19 OTHER ASSETS

Other assets represent payment for a club membership which is stated at cost.

20 REIMBURSEMENTS RECEIVABLE

Reimbursements receivable represent funding advanced to the production house on behalf of advertising agencies for investment in the production of TV programmes. The amounts are recoverable by the Group from the sales proceeds of commercial airtime to be granted by the relevant broadcasting TV stations. The amounts are interest free and secured by the advertising agency's right to certain benefits to be derived from the first round broadcasting licence right in the PRC in certain TV programmes and in which the advertising agency has invested. The amounts are expected to be recoverable within one year and governed by the reimbursement repayment guarantees entered into among the Group, the production house and the advertising agencies.

Advertising contracts are entered into by the PRC licensed advertising agencies with the advertisers. In the circumstances, the Group has to obtain settlement of the related reimbursements receivable from the licensed advertising agencies. Collection of related reimbursements receivable is therefore dependent on the financial position of the licensed advertising agencies.

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(a) The Group

	2004	2003
	$'000	$'000
Prepayments	**9,810**	12,760
Utility and rental deposits	**515**	200
Other receivables	**1,808**	778
	12,133	13,738

All of the prepayments, deposits and other receivables at 30 September 2004 are expected to be recoverable within one year.

(b) The Company

At 30 September 2003, the Company's prepayments primarily represent listing expenses paid by a subsidiary on behalf of the Company.

22 AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies are interest-free, unsecured and have no fixed terms of repayment.

23 AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is interest-free, unsecured and has no fixed terms of repayment.

24 AMOUNT DUE FROM A DIRECTOR

The amount due from a director, Dr. Leung Anita Fung Yee Maria ("Dr. Leung") are interest-free, unsecured and have no fixed terms of repayment. The maximum balance outstanding from Dr. Leung during the year ended 30 September 2004 was $498,000 (2003: $2,821,000).

25 PLEDGED DEPOSITS

The balance at 30 September 2004 represents bank deposits pledged as security against banking facilities of $50,000,000 and RMB6,000,000 (2003: against a banking facility of $10,000,000) of which $nil and RMB6,000,000 (equivalent to approximately $5,660,000) respectively (2003: $10,076,000) were utilised at year end (note 26).

26 BANK LOANS AND OVERDRAFTS

	The Group	
	2004	2003
	$'000	$'000
Secured bank overdrafts	–	25,443
Secured bank loans	24,509	9,260
	24,509	34,703
Mortgage bank loans:		
– current portion	243	236
– non-current portion	6,488	6,731
	6,731	6,967
	31,240	41,670

Repayable as follows:		
Within 1 year or on demand	24,752	34,939
After 1 year but within 2 years	253	238
After 2 years but within 5 years	824	799
After 5 years	5,411	5,694
	6,488	6,731
	31,240	41,670

26 BANK LOANS AND OVERDRAFTS (Continued)

At 30 September 2004, a bank loan facility of RMB6,000,000 (equivalent to approximately $5,660,000) was secured by pledged deposits of RMB3,000,000 (equivalent to approximately $2,830,000) and the corporate guarantee provided by the Company. The amount of loan facility utilised was RMB6,000,000 (equivalent to approximately $5,660,000) (note 25).

At 30 September 2004, a bank loan facility of RMB20,000,000 (2003: RMB20,000,000) and mortgage bank loans of $6,731,000 (2003: $6,967,000) were secured by the Group's land and buildings with carrying value of $16,682,000 (2003: land and buildings of $7,226,000 and construction in progress of $9,305,000) (note 15), and the corporate guarantees provided by the Company. The amount of loan facility utilised was $18,849,000 (2003: $9,260,000) as at 30 September 2004.

27 ACCRUALS AND OTHER PAYABLES

	The Group	
	2004	2003
	HK$'000	HK$'000
Accrued expenses	**4,925**	2,402
Other payables	**9,783**	14,027
	14,708	16,429

(Expressed in Hong Kong dollars)

28 SHARE CAPITAL

		2004		2003	
	Note	Number of shares	$	Number of shares	$
Authorised:					
Ordinary shares of US$0.01 each	(a), (b), (c)	800,000,000	62,400,000	800,000,000	62,400,000
		800,000,000	62,400,000	800,000,000	62,400,000
Issued:					
At the beginning of the year	(a)	20,000,000	1,560,000	2	16
Issuance of shares pursuant to the Reorganisation	(b)	–	–	199,998	1,559,984
Subdivision of shares	(c)	–	–	19,800,000	–
Issuance of shares by placing and public offer	(d)	100,000,000	7,800,000	–	–
Capitalisation issue	(e)	280,000,000	21,840,000	–	–
At the end of the year		400,000,000	31,200,000	20,000,000	1,560,000

Notes:

(a) The Company was incorporated on 29 October 2002 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Two ordinary shares were allotted and issued at US$1 on 29 October 2002.

(b) By an ordinary resolution passed on 17 November 2003, the Company's authorised share capital was increased to US$200,000 by the creation of an additional 150,000 ordinary shares of US$1 each, ranking pari passu with the existing shares of the Company. On 17 November 2003, in consideration of the transfers of the interest in the subsidiaries to the Company, the Company issued and allotted 199,998 shares of US$1 each to the original shareholders of the subsidiaries.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 SHARE CAPITAL (Continued)

(c) Pursuant to the written resolutions of all the shareholders of the Company passed on 13 June 2004, the par value of each issued share of US$1.00 in the capital of the Company was subdivided into 100 shares of US$0.01 each so that immediately after the subdivision of shares, the authorised and issued share capital of the Company would be US$200,000 divided into 20,000,000 shares of US$0.01 each; and the authorised share capital of the Company was increased from US$200,000 to US$8,000,000 by the creation of additional 780,000,000 new ordinary shares ranking pari passu with the existing shares of the Company.

For the purpose of the preparation of the consolidated balance sheet as at 30 September 2003, share capital represents 20,000,000 shares of US$0.01 each in the share capital of the company upon completion of the Reorganisation.

(d) On 29 June 2004, the Company allotted and issued 100,000,000 ordinary shares of US$0.01 each to investors through the placing and public offer at $1.28 per share, for cash consideration of $128,000,000. The excess of the issue price over the par value of the shares issued has been credited to the share premium account of the Company (note 29).

(e) On 29 June 2004, 280,000,000 shares were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company in proportion to their respective shareholdings at the close of business on 13 June 2004 by way of capitalisation of the sum of $21,840,000 standing to the credit of the share premium account of the Company (note 29).

(f) Pursuant to the written resolutions of the shareholders passed on 13 June 2004, the Company had established a share option scheme whereby the directors of the Company may, at their discretion, grant any full time or part time employees and directors, consultants and advisers to the Group (subject to the eligibility requirements set out therein), options to subscribe for shares representing up to a maximum of 30% of the shares in issue from time to time.

During the year ended 30 September 2004, no options were granted to any such eligible participants under the share option scheme.

29 RESERVES

(a) The Group

	Share premium $'000 (note (i))	General reserve $'000 (note (ii))	Capital reserve $'000 (note (iii))	Retained earnings $'000	Total $'000
At 1 October 2002	–	167	(1,560)	40,262	38,869
Profit for the year	–	–	–	36,041	36,041
Dividend approved in respect of the previous year	–	–	–	(6,000)	(6,000)
Dividend approved in respect of the current year	–	–	–	(7,000)	(7,000)
Transfer to statutory reserves	–	239	–	(239)	–
At 30 September 2003	–	406	(1,560)	63,064	61,910
At 1 October 2003	–	406	(1,560)	63,064	61,910
Profit for the year	–	–	–	50,361	50,361
Issuance of shares by placing and public offer (note 28(d))	120,200	–	–	–	120,200
Capitalisation issue (note 28(e))	(21,840)	–	–	–	(21,840)
Share issuance costs	(30,727)	–	–	–	(30,727)
At 30 September 2004	67,633	406	(1,560)	113,425	179,904

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 RESERVES (Continued)

(b) The Company

	Share premium $'000 (note (i))	Contributed surplus $'000 (note (v))	Retained earnings/ (accumulated losses) $'000	Total $'000
At 1 October 2002	–	–	–	–
Loss for the year	–	–	(28)	(28)
At 30 September 2003	–	–	(28)	(28)
At 1 October 2003	–	–	(28)	(28)
Profit for the year	–	–	12,975	12,975
Issuance of shares pursuant to the Reorganisation (note 28(b)&(c))	–	59,382	–	59,382
Issuance of shares by placing and public offer (note 28(d))	120,200	–	–	120,200
Capitalisation issue (note 28(e))	(21,840)	–	–	(21,840)
Share issuance costs	(30,727)	–	–	(30,727)
At 30 September 2004	67,633	59,382	12,947	139,962

Notes:

(i) **Share premium**

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) **General reserve**

According to the articles of association of the subsidiaries established in the PRC, the PRC subsidiaries are required to transfer at least 10% of their profit after taxation, as determined under PRC accounting regulations, to the general reserve fund until the reserve balance reaches 50% of the required capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to make good previous years' losses, if any.

29 RESERVES (Continued)

(b) The Company (continued)

(iii) Capital reserve

Capital reserve represents the excess of the nominal value of the shares issued by the Company over the aggregate of the nominal value of the share capital of the subsidiaries which the Company acquired under the Reorganisation.

(iv) Distributable reserves

As at 30 September 2004, the reserves of the Company available for distribution to shareholders amounted to $139,962,000 (2003: $nil), subject to the restriction stated in (i) above.

(v) Contributed surplus

Contributed surplus represents the excess of aggregate of the net asset value of subsidiaries acquired by the Company over the nominal value of the shares issued by the Company pursuant to the Reorganisation.

30 COMMITMENTS

(a) Commitments under operating leases

At 30 September 2004, the total future minimum lease payments under non-cancellable operating leases in respect of properties and motor vehicles are payable as follows:

	2004 $'000	2003 $'000
Within one year	576	403
After one year but within five years	1,052	630
	1,628	1,033

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

30 COMMITMENTS (Continued)

(b) Other commitments

(i) Pursuant to the terms of a Master Investors Procurement Agreement, the Group agreed to procure required funding to a production house for the production of 6,000 hours of television programmes. During the year ended 30 September 2004, the Group procured funding for the production of 79 hours (2003: 57 hours) of TV programmes, with estimated production costs totalling $26,349,000 (2003: $21,632,000). The total funding required for the remaining 5,746 hours is to be determined when individual projects for TV programme production are agreed and therefore is not quantifiable as at 30 September 2004.

During the year ended 30 September 2004, the corresponding funding agreed to be paid by the licensed advertising agencies pursuant to the agreements among the Group, the production house and the advertising agencies concluded on an individual programme basis amounted to $26,349,000 (2003: $22,481,000). Pursuant to a supplementary agreement to the Master Investors Procurement Agreement dated 11 November 2002, should the production house not eventually receive the agreed funding in full, (1) the Group shall pay the shortfall in full, following which the Group will be entitled to the rights in relation to the relevant TV programme, or if the Group cannot be entitled to such rights for any reasons, the TV production house shall repay the shortfall to the Group together with interest at a rate of 10% one year after the first round broadcasting of the TV programme; or (2) the Group shall pay an amount up to 15% of the shortfall, following which the production house will be entitled to the rights in relation to the relevant TV programme. The production house has received the agreed required funding in full as at 30 September 2004.

30 COMMITMENTS (Continued)

(b) Other commitments (Continued)

(ii) On 24 October 2003, the Group entered into a co-operative agreement with Shanghai Yali Culture Communication Co., Ltd ("Shanghai Yali") (an independent third party) in respect of a piece of land in Dongguan in the PRC in connection with the construction of a production centre and the leasing arrangement of which upon its completion. Pursuant to the terms of the agreement, the Group agreed to make instalment payments to Shanghai Yali totalling $30,000,000 on or before 31 May 2005, and in return the Group is granted the use of the production centre upon its completion for a period of 12 years. In addition, $3 million deposit was placed to Shanghai Yali to secure the right to purchase the property at 5%-10% discount on its prevailing market value within the first 3 years upon completion. If the Group has not exercised the right within the said 3-year period, it has an option to pay an additional deposit of $3 million to secure the right for another 3-year period. If the Group does not exercise the right during the extended period, the two deposits will not be refunded but the lease term of the property will be extended for another 3 years.

As at 30 September 2004, the Group made progress payment including the said deposit to secure the right to purchase the property at the discount to Shanghai Yali totalling $8,477,000. The outstanding commitment at 30 September 2004 was $24,523,000 (2003: $nil).