# 北青傳媒股份有限公司
# Beijing Media Corporation Limited

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


INTERIM REPORT
2005

## CHAIRMAN'S STATEMENT

On behalf of Beijing Media Corporation Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to report the interim results for the six months ended 30 June 2005 ("First Half of 2005").

## BUSINESS REVIEW

The Group is principally engaged in three business operations: (1) advertising sales, which contribute the largest portion of the turnover of the Group; (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.

For the First Half of 2005, total turnover of the Group was about RMB368,271,000, representing a decrease of approximately 28.3% from the corresponding period of 2004. Profit attributable to shareholders was about RMB170,000, representing a decrease of approximately 99.7% from the corresponding period of 2004.

The overall results of the Group for the First Half of 2005 experienced a decline, primarily due to a substantial decrease in advertising revenue, particularly related to the real estate sector, as a result of the marco-economic austerity measures and relevant policies and regulations implemented by the PRC government.

## INDUSTRY OVERVIEW

In the First Half of 2005, the overall advertising sector in the PRC slowed down drastically as a consequence of the PRC government's marco-economic austerity measures and related adverse market conditions. Many sectors, especially sectors from which many major newspaper advertisers come such as the real estate and automotive industries, 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 primarily resulted from a substantial decline in the number of advertisements placed by clients in the real estate and automotive sectors, particularly the former.

Due to the significant decrease in the number of advertisements placed by major clients in the real estate and automotive sectors in Beijing, the advertising business of the Group encountered material challenges in the First Half of 2005.

In the second half of 2005, the Group will continue to focus on its core business of providing newspaper advertising services. In addition, the Group is also committed to cross-media platform operations, which include studying the feasibility of developing weekend publications and topic-focused magazines and the development of outdoor advertising business. Moreover, the Group will continue to leverage its established media connections in Beijing to organise large-scale events such as the China Open Tennis Tournament ("China Open").

## ADVERTISING BUSINESS

For the First Half of 2005, approximately RMB233,277,000, or 63.3%, of the total turnover of the Group was derived from advertising sales, representing a decrease of about 36.9% from the corresponding period of 2004.

The Group's revenue generated from advertising was mainly attributable to Beijing Youth Daily. In the First Half of 2005, due to the impact of the marco-economic austerity measures and relevant policies and regulations in the PRC, revenue from real estate advertising received by Beijing Youth Daily decreased by approximately 50.2% from the corresponding period of 2004 to approximately RMB85,241,000.

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 the First Half of 2005, turnover from the printing business and trading of print-related materials amounted to about RMB42,269,000 and RMB92,725,000 respectively, representing an increase of approximately 499.6% and 37.8% respectively from the corresponding period of 2004.

## ORGANISATION OF LARGE-SCALE EVENTS

China Open Promotion Company Limited ("COL"), a jointly controlled joint venture established by the Company, has successfully organised the first China Open tournament in September 2004 in Beijing, and will organise the second tournament in September 2005 in Beijing. Leveraging the experience acquired in the first tournament, COL expects and believes that the second China Open tournament will attain a higher degree of success. At present, preparations for the second tournament, negotiation of related contracts and feasibility studies are being conducted by COL, the relevant government departments and the other cooperating entities and units.

## PROSPECTS AND FUTURE PLANS

The Group experienced one of its most difficult periods in the First Half of 2005 under adverse market conditions and the impact of the marco-economic austerity measures of the PRC government. Looking forward into the second half of the year and 2006, we are of the belief that there will be a healthy growth in the PRC advertising industry. In light of the impending 2008 Olympic Games in Beijing, we believe that business opportunities will arise from the anticipated substantial growth in 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 from expansion into operations of new newspapers, topic-focused magazines, outdoor billboards, large-scale events and TV.

For the First Half of 2005, we recorded results which were markedly weaker compared with the corresponding period in last year. Despite this, the Group and our staff at all levels will continue to explore and develop more income steams and establish a cross-media platform for the Group, so as to develop the Group into a leading cross-media enterprise and to try to generate the best returns for our shareholders.

*Chairman*
**ZHANG Yanping**
29 August 2005
Beijing, the PRC

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Position and Business Results

1. *Turnover*

   For the First Half of 2005, turnover of the Group was approximately RMB368,271,000 (corresponding period of 2004: RMB513,746,000), representing a decrease of approximately 28.3% from the corresponding period of 2004. Revenue from advertising dropped by approximately RMB136,413,000, representing a decrease of approximately 36.9% from the corresponding period of 2004, mainly due to the approvals and sales activities of real estates in the PRC slowed down under the marco-economic austerity measures implemented by the PRC government in the past two years. As a result, revenue from real estate advertisements, the Company's major source of income, recorded a decline. Revenue from printing business increased by about RMB35,219,000, representing an increase of about 499.6% from the corresponding period of 2004, while revenue from the trading of print-related materials increased by about RMB25,425,000, representing an increase of about 37.8% from the corresponding period of 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 Beijing Youth Daily Newspaper Agency ("the ultimate holding company" or "BYD") on 31 August 2004. As such, the Company did not record any related distribution and other revenue for the First Half of 2005 (corresponding period of 2004: RMB69,706,000).

2. *Cost of Sales and Operating Expenses*

   For the First Half of 2005, the Group's cost of sales was approximately RMB336,874,000 (corresponding period of 2004: RMB345,088,000), representing a decrease of about 2.4% from the corresponding period of 2004. Operating expenses were approximately RMB24,037,000 (corresponding period of 2004: RMB69,187,000), representing a decrease of approximately 65.3% from the corresponding period of 2004. Operating expenses represented about 6.5% (corresponding period of 2004: 13.5%) of the Group's turnover for the First Half of 2005, compressing 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. For the First Half of 2005, costs and expenses relating to advertising revenue decreased by approximately RMB65,357,000, representing a decrease of approximately 21.4% from the corresponding period of 2004. Due to the increase in volume of printing activities, costs and expenses relating to printing revenue increased by approximately RMB40,099,000, representing an increase of approximately 1,231.9%, from the corresponding period of 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 RMB20,184,000, representing an increase of approximately 31.7%, from the corresponding period of 2004. Costs and expenses relating to distribution and other operations decreased by approximately RMB48,290,000, representing a decrease of 100% from the corresponding period of 2004.

3. *Gross Profit*
   For the First Half of 2005, the Group's gross profit amounted to approximately RMB31,397,000 (corresponding period of 2004: RMB168,658,000), representing a decrease of approximately 81.4% from the corresponding period of 2004. Gross profit margin decreased to 8.5% (corresponding period of 2004: 32.8%).

4. *Profit Attributable to Shareholders*
   For the First Half of 2005, the Group's profit attributable to shareholders was about RMB170,000 (corresponding period of 2004: RMB66,309,000), representing a decrease of about 99.7% from the corresponding period of 2004.

5. *Interim Dividend*
   The board of directors of the Company (the "Board") does not recommend the distribution of any interim dividend for the six months ended 30 June 2005.

6. *Non-current Assets*
   As at 30 June 2005, the non-current assets of the Group amounted to approximately RMB8,588,000 (31 December 2004: RMB21,849,000) which mainly comprised fixed assets and intangible assets of approximately RMB50,872,000 (31 December 2004: RMB52,217,000) and about RMB5,306,000 (31 December 2004: RMB5,306,000) respectively. Share of net liabilities of a jointly controlled entity amounted to approximately RMB49,659,000 (31 December 2004: RMB37,743,000) and available-for-sale financial assets amounted to approximately RMB2,069,000 (31 December 2004: RMB2,069,000).

7. *Net Current Assets*
   As at 30 June 2005, the Group's net current assets amounted to approximately RMB1,319,982,000 (31 December 2004: RMB1,376,922,000). Current assets mainly comprised cash and cash equivalents of approximately RMB236,909,000 (31 December 2004: RMB1,308,107,000), short-term bank deposits of approximately RMB1,123,793,000 (31 December 2004: RMB43,030,000), restricted bank deposits of approximately RMB56,000,000 (31 December 2004: RMB56,000,000), inventory of approximately RMB58,837,000 (31 December 2004: RMB54,623,000) as well as trade receivables and other receivables, prepayments and deposits of approximately RMB148,089,000 (31 December 2004: RMB170,241,000). Current liabilities mainly included unsecured short-term bank loan of approximately RMB10,000,000 (31 December 2004: RMB10,000,000), trade payables and other payables and accruals of approximately 65,120,000 (31 December 2004: RMB54,833,000) and RMB215,142,000 (31 December 2004: RMB177,577,000) respectively and taxation payable of approximately RMB10,644,000 (31 December 2004: RMB9,929,000).

**Liquidity and Financial Resources**

As at 30 June 2005, the Group's cash and cash equivalents and short-term bank deposits were totaling approximately RMB1,360,702,000 (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 0.8% (31 December 2004: 0.7%) as at 30 June 2005.

## POST-LISTING DEVELOPMENT OF BUSINESS SEGMENTS

In May 2005, the Company invested RMB2,550,000 to acquire 51% of the equity interests in Beijing Leisure Trend Advertisement 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.

Since its listing on The Stock Exchange of Hong Kong Limited on 22 December 2004, the Company has been committed to fulfilling its undertakings to its shareholders. The Company has embarked on the planning, research and implementation of the launch of week-end newspapers and topic-focused magazines on various themes such as personal wealth management, life style and teenagers. The Company is seeking to establish a more extensive and diversified media platform by expanding its range of publications. The Company is also in the process of identifying outdoor billboards along main roads so as to diversify its income stream. Leveraging its experience in organizing large-scale events, the Group also intends to organize more large-scale events to generate more income and profit.

## CAPITAL STRUCTURE

| | Number of Shares | Percentage |
|---|---:|---:|
| **Total Share Capital** | **197,310,000** | |
| **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% |
| **Current H Shares** | **54,901,000** | **27.82%** |
| Including: MIH Print Media Holdings Limited | 19,533,000 | 9.90% |

## USE OF PROCEEDS FROM PUBLIC OFFER OF SHARES

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 30 June 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 |

## CAPITAL EXPENDITURES

Capital expenditures of the Group for the First Half of 2005 including expenditures on office equipment were approximately RMB792,000. The Company has authorised a total amount of capital expenditures of approximately RMB234,000,000 which included the acquisition of other media businesses of approximately RMB200,000,000, development of topic-focused magazines on personal wealth management, lifestyle and cultural activities of approximately RMB30,000,000, and the purchase of office and computer equipment of approximately RMB4,000,000.

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

| | **As at 30 June 2005** *RMB'000* | **As at 31 December 2004** *RMB'000* |
|---|---|---|
| Guarantee for bank loans of a jointly controlled entity | 56,000 | 72,553 |

On 21 July 2004, the Company entered into a 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 granted to COL by China Minsheng Banking Corporation Limited.

Management anticipate 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. For the six months ended 30 June 2005, the Group did not encounter any significant difficulties or losses arising from, nor were its operating cash flow or liquidity subject to, any exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements during the six months ended 30 June 2005.

As the proceeds from the new issue of shares in December 2004 were received in Hong Kong dollars, the Group may be exposed to foreign currency risk as a substantial portion of cash and cash equivalents are denominated in Hong Kong dollars. The Group will closely monitor exposure arising from changes in exchange rate. Fluctuation of the exchange rate of RMB against foreign currencies could effect the Group's results of operations.

## STAFF

As at 30 June 2005, the Group had a total of 145 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 30 June 2005, none of the directors, supervisors, executive president or senior management of the Company has any shareholding interests in the Company.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in the following paragraph, the board of the Company believes that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the First Half of 2005.

### Remuneration Committee

The Company has not yet established a remuneration committee. The Company will establish a remuneration committee in accordance with the requirements of Rules B.1.1 to B.1.5 of the Code in the second half of the year 2005.

## COMPLIANCE WITH THE "MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS"

The Company has adopted a code of conduct regarding securities transactions of Directors on terms not lower than the required standard set out in Appendix 10 of the Listing Rules. Having made thorough enquiry of the Directors, the Company can reasonably confirm that the Directors have complied with the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules.

## MATERIAL LITIGATION AND ARBITRATION

To the best knowledge of the Board, the Company was not engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was pending or threatened against the Company as at 30 June 2005.

## CHANGE OF BOARD MEMBERS

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

## 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 interim financial statements of the Group for the First Half of 2005.

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

*For the six months ended 30 June 2005*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2005** | **2004** |
| | | **Unaudited** | **Restated** |
| | | | *(Note 20)* |
| | *Note* | *RMB'000* | *RMB'000* |
| Turnover | | 368,271 | 513,746 |
| Cost of sales | | (336,874) | (345,088) |
| Gross profit | | 31,397 | 168,658 |
| Other revenues | | 12,737 | 2,723 |
| Selling and distribution expenses | | (2,471) | (40,399) |
| Administrative expenses | | (21,566) | (28,788) |
| Operating profit | | 20,097 | 102,194 |
| Finance income/(expenses) | | 1,287 | (273) |
| Share of profits and losses of | | | |
| A jointly controlled entity | | (11,916) | (19,103) |
| Associated companies | | – | 19 |
| Profit before taxation | *7* | 9,468 | 82,837 |
| Taxation | *8* | (4,632) | (9,856) |
| Profit for the period | | 4,836 | 72,981 |
| Attributable to: | | | |
| Equity holders of the Company | | 170 | 66,309 |
| Minority interests | | 4,666 | 6,672 |
| | | 4,836 | 72,981 |
| Earnings per share for profit attributable to the equity holders of the Company during the period (RMB per share) | | | |
| – Earnings per share of continuing operations | | 0.001 | 0.47 |
| – Loss per share of discontinuing operations | | – | (0.02) |
| | *9* | 0.001 | 0.45 |
| Dividends | *10* | 76,951 | 46,146 |

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

*As at 30 June 2005*

| | Note | As at 30 June 2005 Unaudited *RMB'000* | As at 31 December 2004 Restated *(Note 20)* *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | *11* | 50,872 | 52,217 |
| Intangible assets | | 5,306 | 5,306 |
| Investment in a jointly controlled entity | *12* | (49,659) | (37,743) |
| Available-for-sale financial assets | | 2,069 | 2,069 |
| | | 8,588 | 21,849 |
| **Current assets** | | | |
| Inventories | | 58,837 | 54,623 |
| Trade receivables | *13* | 130,395 | 83,999 |
| Other receivables, prepayment and deposits | | 17,694 | 86,242 |
| Restricted bank deposits | | 56,000 | 56,000 |
| Short-term bank deposits | | 1,123,793 | 43,030 |
| Cash and cash equivalents | | 236,909 | 1,308,107 |
| | | 1,623,628 | 1,632,001 |
| **Current liabilities** | | | |
| Trade payables | *14* | 65,120 | 54,833 |
| Other payables and accruals | *15* | 215,142 | 177,577 |
| Taxation payable | | 10,644 | 9,929 |
| Short-term bank loan | | 10,000 | 10,000 |
| Current portion of long-term liabilities | | 2,740 | 2,740 |
| | | 303,646 | 255,079 |
| **Net current assets** | | 1,319,982 | 1,376,922 |
| **Total assets less current liabilities** | | 1,328,570 | 1,398,771 |
| **Non-current liabilities** | | | |
| Long-term liabilities | | 5,280 | 5,280 |
| **Net assets** | | 1,323,290 | 1,393,491 |

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) *(Continued)*

*As at 30 June 2005*

| | | As at | |
|---|---|---|---|
| | | **30 June 2005 Unaudited** | **31 December 2004 Restated** *(Note 20)* |
| | *Note* | *RMB'000* | *RMB'000* |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | | 197,310 | 197,310 |
| Reserves | | 1,009,353 | 1,009,546 |
| Retained earnings | | | |
| – Proposed final dividend | | – | 76,951 |
| – Others | | 82,920 | 82,750 |
| | | 1,289,583 | 1,366,557 |
| **Minority interests** | | 33,707 | 26,934 |
| **Total equity** | | 1,323,290 | 1,393,491 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the six months ended 30 June 2005*

| | **Restated** *(note 20)* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** *RMB'000* | **Capital reserve** *RMB'000* | **Statutory surplus reserve** *RMB'000* | **Statutory public welfare fund** *RMB'000* | **Retained earnings** *RMB'000* | **Minority Interests** *RMB'000* | **Total** *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 |
| Transfer to share capital | 46,140 | – | – | – | (46,140) | – | – |
| Dividend relating to 2003 | – | – | – | – | (46,146) | (762) | (46,908) |
| Profit for the period | – | – | – | – | 66,309 | 6,672 | 72,981 |
| Balance at 30 June 2004 | 147,400 | – | 32,689 | 33,540 | 204,223 | 32,196 | 450,048 |

| | **Unaudited** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** *RMB'000* | **Capital reserve** *RMB'000* | **Statutory surplus reserve** *RMB'000* | **Statutory public welfare fund** *RMB'000* | **Retained earnings** *RMB'000* | **Minority Interests** *RMB'000* | **Total** *RMB'000* |
| 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 |
| Others | – | (193) | – | – | – | – | (193) |
| Dividend relating to 2004 | – | – | – | – | (76,951) | – | (76,951) |
| Profit for the period | – | – | – | – | 170 | 4,666 | 4,836 |
| Balance at 30 June 2005 | 197,310 | 896,120 | 56,988 | 56,245 | 82,920 | 33,707 | 1,323,290 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

*For the six months ended 30 June 2005*

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | **2004** |
| | **Unaudited** | **Audited** |
| | *RMB'000* | *RMB'000* |
| Net cash (outflow)/inflow from operating activities | (48,130) | 59,087 |
| Net cash outflow from investing activities | (1,058,330) | (140,246) |
| Net cash inflow/(outflow) from financing | 33,693 | (46,908) |
| Net decrease in cash and cash equivalents | (1,072,767) | (128,067) |
| Cash and cash equivalents at beginning of the period | 1,308,107 | 460,392 |
| Exchange gains on cash and cash equivalents | 1,569 | – |
| Cash and cash equivalents at end of the period | 236,909 | 332,325 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

*For the six months ended 30 June 2005*

### 1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in the People's Republic of China ("PRC") on 28 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.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

The unaudited condensed consolidated financial statements have been prepared in accordance with new HKFRSs and interpretations issued and effective as at the time of preparing these information. The new HKFRSs and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the condensed consolidated financial statements.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 3 below.

### 3. CHANGES IN ACCOUNTING POLICIES

#### (1) Effect of adopting new HKFRSs

In 2005, the Group adopted the new/revised standards of HKFRSs 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 |

**3. CHANGES IN ACCOUNTING POLICIES** *(Continued)*

**(1) Effect of adopting new HKFRSs** *(Continued)*

| | |
|---|---|
| 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 | Investments 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 |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 31, 32, 33, 38 and 39 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, 17, 23, 27, 28, 31, 32, 33, 38 and 39 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 financial statements.

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

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

– Amortised 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 3 (2)):

– 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 ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The adoption of HKFRS 3 has resulted in a decrease of general and administrative expenses amounting to RMB413,500 for the six months period.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. Where the land and building cannot be allocated reliably as at the date of acquisition, the land and building elements will continue to be treated as fixed assets and carried at cost.

**3. CHANGES IN ACCOUNTING POLICIES** *(Continued)*

**(1) Effect of adopting new HKFRSs** *(Continued)*

The adoption of HKAS 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.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. 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 the exchange of property, plant and equipment is accounted at fair value prospectively; and

– HKFRS 3 – prospectively after 1 January 2005.

**(2) New accounting policies**

The accounting policies used for the unaudited condensed consolidated financial statements for the six months ended 30 June 2005 are the same as those set out in Note 2 to the 2004 annual financial statements except for the following:

– Acquisition of subsidiaries and associates
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. 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.

– 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.

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

– Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net assets acquired at the date of acquisition. Goodwill on acquisitions is included in intangible assets and 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.

**3. CHANGES IN ACCOUNTING POLICIES** *(Continued)*

**(2) New accounting policies** *(Continued)*

– Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment 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).

**4. FINANCIAL RISK MANAGEMENT**

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

**(1) Financial risk factors**

The Group is exposed to market risk arising from changes in interest and 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. Fluctuation of the exchange rates of Renminbi 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.

**(2) Fair value estimation**

The fair value of financial instruments traded in active market is based on quoted market prices at the balance sheet date.

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 any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year 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 Company and its subsidiaries for similar financial instruments.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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.

### (b) Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3(2). 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 units.

## 6. SEGMENT INFORMATION

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

For the six months ended 30 June 2005, the Group is organized 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.

## 6. SEGMENT INFORMATION *(Continued)*

### (b) Segment results

The segment results are as follows:

| | For the six months ended 30 June 2005 | | | |
|---|---|---|---|---|
| | **Advertising** *RMB'000* | **Printing** *RMB'000* | **Trading of print-related materials** *RMB'000* | **Group** *RMB'000* |
| Turnover (including inter-segment) | 233,277 | 185,455 | 92,725 | 511,457 |
| Less: Inter-segment sales | – | (143,186) | – | (143,186) |
| Turnover to external customers | 233,277 | 42,269 | 92,725 | 368,271 |
| Segment results | (6,856) | 5,425 | 8,791 | 7,360 |
| Unallocated income | | | | 12,737 |
| Operating profit | | | | 20,097 |
| Finance income | | | | 1,287 |
| Share of losses of a jointly controlled entity | | | | (11,916) |
| Profit before taxation | | | | 9,468 |
| Taxation | | | | (4,632) |
| Profit for the period | | | | 4,836 |
| Capital expenditure | 416 | – | 376 | 792 |
| Depreciation | 1,987 | – | 357 | 2,344 |
| Other non-cash income | 6,110 | – | – | 6,110 |
| As at 30 June 2005 | | | | |
| Segment assets | 1,549,739 | 22,166 | 107,901 | 1,679,806 |
| Interests in a jointly controlled entity | | | | (49,659) |
| Available-for-sale financial assets | – | – | 2,069 | 2,069 |
| Total assets | | | | 1,632,216 |
| Segment liabilities | 206,871 | 35,319 | 66,736 | 308,926 |

## 6. SEGMENT INFORMATION *(Continued)*

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

| | Six months ended 30 June 2004 | | | | | |
|---|---|---|---|---|---|---|
| | **Advertising** | **Printing** | **Distribution** | **Trading of print–related materials** | **Others** | **Group** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover (including inter-segment) | 369,690 | 180,895 | 62,246 | 67,300 | 18,071 | 698,202 |
| Less: Inter-segment sales | – | (173,845) | (10,611) | – | – | (184,456) |
| Turnover to external customers | 369,690 | 7,050 | 51,635 | 67,300 | 18,071 | 513,746 |
| Segment results | 64,200 | 10,305 | 17,587 | 3,550 | 3,829 | 99,471 |
| Unallocated income | | | | | | 2,723 |
| Operating profit | | | | | | 102,194 |
| Finance costs | | | | | | (273) |
| Share of losses of a jointly controlled entity | | | | | | (19,103) |
| Share of profits and losses of associated companies | | | | | | 19 |
| Profit before taxation | | | | | | 82,837 |
| Taxation | | | | | | (9,856) |
| Profit for the period | | | | | | 72,981 |
| Capital expenditure | 162 | 21 | 195 | 7 | 2,825 | 3,210 |
| Depreciation | 2,122 | 265 | 1,291 | 82 | 239 | 3,999 |
| Amortization charge | 413 | – | – | – | – | 413 |
| Other non-cash expense | 22 | – | – | – | – | 22 |
| 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) |
| Available-for-sale financial assets | – | – | – | 2,069 | – | 2,069 |
| Total assets | | | | | | 1,653,850 |
| Segment liabilities | 184,799 | 51,940 | – | 23,620 | – | 260,359 |

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.

## 7. PROFIT BEFORE TAXATION

Profit before taxation in the unaudited condensed consolidated income statement for the six months ended 30 June 2005 was determined after charging and crediting of the following items:

| | For the six months ended 30 June | |
|---|---|---|
| | **2005** | **2004** |
| | *RMB'000* | *RMB'000* |
| Charging: | | |
| Interest expenses | 282 | 273 |
| Depreciation of fixed assets | 2,344 | 3,999 |
| Amortization of intangible assets | – | 413 |
| Provision for doubtful debts | 5,753 | 22 |
| Employee benefit expenses | 11,605 | 36,880 |
| Printing costs | 71,018 | 80,371 |
| Cost of inventory | | |
| – printing | 104,319 | 85,503 |
| – trading | 81,350 | 61,161 |
| Crediting: | | |
| Gain on disposal of fixed assets | – | 10 |

## 8. TAXATION

The Group is not subject to Hong Kong profits tax since it has no estimated assessable profit arising in or derived from Hong Kong for the period ended 30 June 2005 (2004: Nil).

PRC income tax has been provided on the estimated assessable profit for the period at their prevailing rates of taxation.

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2005** | **2004** |
| | *RMB'000* | *RMB'000* |
| Current taxation – PRC Enterprise Income Tax | 4,632 | 5,359 |
| Deferred taxation relating to the reversal of temporary differences | – | 4,498 |
| | 4,632 | 9,856 |

Share of taxation of associates amounting to approximately RMB1,000 was included in share of profits and losses of associates in the unaudited condensed consolidated income statement for the six months ended 30 June 2004.

## 9. 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 period.

| | For the six months ended 30 June | |
|---|---|---|
| | **2005** | **2004** |
| | *RMB'000* | *RMB'000* |
| Profit attributable to equity holders of the Company | | |
| – Profit of continuing operations | 170 | 69,878 |
| – Loss of discontinuing operations | – | (3,569) |
| | 170 | 66,309 |
| Weighted average number of ordinary shares in issue (thousands) | 197,310 | 147,400 |
| Basic earnings per share (RMB per share) | | |
| – Earnings per share of continuing operations | 0.001 | 0.47 |
| – Loss per share of discontinuing operations | – | (0.02) |
| | 0.001 | 0.45 |

For the period ended 30 June 2005, as there are no potentially dilutive shares outstanding, there is no difference between basic and diluted earnings per share.

## 10. DIVIDENDS

In the annual general meeting on 15 June 2005, the shareholders approved the final dividend of RMB0.39 per ordinary share amounting to a total of RMB76,950,900, in respect of the year ended 31 December 2004. The amounts have been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.

## 11. FIXED ASSETS, NET

| | As at 30 June 2005 RMB'000 | As at 31 December 2004 RMB'000 |
|---|---|---|
| Net book amounts at beginning of period/year | 52,217 | 64,481 |
| Acquisition* | 207 | – |
| Additions | 792 | 1,802 |
| Depreciation | (2,344) | (6,850) |
| Disposal | – | (47) |
| Sales of discontinued operation | – | (7,169) |
| Net book amounts at end of period/year | 50,872 | 52,217 |

* The increase of the fixed assets was resulted from the acquisition of 51% equity interest in Beijing Leisure Trend Advertisement Company (Note 16).

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

## 12. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

| | As at 30 June 2005 RMB'000 | As at 31 December 2004 RMB'000 |
|---|---|---|
| Share of net liabilities | (49,659) | (37,743) |

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

| | Six months ended 30 June 2005 RMB'000 |
|---|---|
| Turnover | – |
| Other revenues | – |
| Loss for the period | 39,882 |

| | As at 30 June 2005 RMB'000 |
|---|---|
| Non-current assets | 432,302 |
| Current assets | 63,754 |
| Current liabilities | (228,701) |
| Non-current liabilities | (381,239) |
| Net liabilities | (113,884) |

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

The following are the details of the jointly controlled entity as at 30 June 2005:

| Company | Country of operation/ establishment and place of operation | 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 | Organising and promoting Chinese tennis tournaments |

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

*Note (1):*
China Open Promotion Co., Ltd. ("COL") is a Sino-foreign equity joint venture. The Company and the foreign party have 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.

## 13. TRADE RECEIVABLES

The normal credit period granted by the Group to customers (including related parties but except for certain advertising agents of classified advertisements) ranges from 1 week to 3 months from the date of invoice. The credit period granted to certain advertising agents of classified advertisements was extended by the Group in 2004, which allow them to settle the outstanding balances by 31 December 2006.

| | As at 30 June 2005 *RMB'000* | As at 31 December 2004 *RMB'000* |
|---|---|---|
| Trade receivables | | |
| – Due from related parties | 42,401 | 13,000 |
| – Due from third parties | 94,104 | 71,356 |
| | 136,505 | 84,356 |
| Less: provision for doubtful debts | (6,110) | (357) |
| | 130,395 | 83,999 |

## 13. TRADE RECEIVABLES *(Continued)*

The aging analysis of trade receivables is as follows:

| | As at 30 June 2005 RMB'000 | As at 31 December 2004 RMB'000 |
|---|---|---|
| Within 3 months | 72,508 | 47,292 |
| 4 months to 6 months | 14,816 | 30,720 |
| 7 months to 12 months | 47,642 | 5,757 |
| 1 year to 2 years | 962 | 85 |
| 2 years to 3 years | 79 | 502 |
| Over 3 years | 498 | – |
| | 136,505 | 84,356 |

## 14. TRADE PAYABLES

| | As at 30 June 2005 RMB'000 | As at 31 December 2004 RMB'000 |
|---|---|---|
| Trade Payables | | |
| – Due to related parties | 10,689 | 40,287 |
| – Due to third parties | 54,431 | 14,546 |
| | 65,120 | 54,833 |

The aging analysis of trade payables is as follows:

| | As at 30 June 2005 RMB'000 | As at 31 December 2004 RMB'000 |
|---|---|---|
| Within 3 months | 60,436 | 33,584 |
| 4 months to 6 months | 3,838 | 8,012 |
| 7 months and 12 months | – | 12,893 |
| 1 year to 2 years | 502 | – |
| 2 year to 3 years | – | 344 |
| Over 3 years | 344 | – |
| | 65,120 | 54,833 |

## 15. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are dividend payable amounting to RMB76,950,900 (2004: Nil) and an amount of RMB94,536,000 (2004: RMB94,536,000), which represents the proceeds from the sale of shares in the Company's global initial public offering ("Global Offering") by three shareholders ("Selling Shareholders") which are PRC state owned entities, such proceeds were received by the Company on behalf of the Selling Shareholders. Pursuant to the relevant PRC government requirements, such proceeds will be remitted to the national social security fund.

## 16. ACQUISITION OF A SUBSIDIARY

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

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

## 17. RELATED-PARTY TRANSACTIONS

The related parties of the Company and its subsidiaries that had transactions with the Company and its subsidiaries during the six months ended 30 June 2005 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 of a subsidiary |
| Workers Daily | A minority shareholder of a subsidiary |
| Beijing Min Yi Printing Technology Services Company | A minority shareholder of a subsidiary |
| Beijing KeYin Printing Technology Services Company | A minority shareholder of a subsidiary |
| ShangHai ShengLian Printing Technology Services Company | A minority shareholder of a subsidiary |
| The First China Business Post | An associate of the Ultimate Holding Company |

The names of companies referred to 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 enterprises 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 multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation 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 disclosures. Nevertheless, management believes that meaningful information relative to related-party transactions with these Other State-Owned Enterprises has been disclosed.

**17. RELATED-PARTY TRANSACTIONS** *(Continued)*

In addition to the related party information shown elsewhere in the unaudited condensed consolidated 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 period and balances arising from related party transactions at the end of the period.

**(a) Related party balances**

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

| | As at | |
|---|---|---|
| | **30 June 2005** | **31 December 2004** |
| | *RMB'000* | *RMB'000* |
| The Ultimate Holding Company | | |
| Trade receivables | 22,629 | 5,897 |
| Other receivables, prepayment and deposits | 4,408 | – |
| Trade payables | – | 16,906 |
| Subsidiaries of the Ultimate Holding Company | | |
| Trade receivables | 1,662 | 775 |
| Associate of Ultimate Holding Company | | |
| Trade receivables | 6,705 | – |
| Other payables and accruals | 924 | – |
| Minority Shareholders of a subsidiary | | |
| Trade receivables | 749 | 1,199 |
| Other receivables, prepayment and deposits | 20 | 34 |
| Trade payables | 8,355 | 12,355 |
| Other payables and accruals | 963 | 718 |
| Other State-Owned Enterprises | | |
| Trade receivables | 10,656 | 5,129 |
| Other receivables, prepayment and deposits | 6,448 | 1,201 |
| Restricted bank deposits | 56,000 | 56,000 |
| Short-term bank deposits | 1,123,793 | 43,030 |
| Cash and cash equivalents | 236,909 | 1,308,107 |
| Trade payables | 2,334 | 11,026 |
| Other payables and accruals | 94,536 | 94,536 |
| Short-term bank loan | 10,000 | 10,000 |

Except for short-term bank deposits, cash and cash equivalents 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. No provision has been made in the current period (for the six months ended 30 June 2004: Nil) for the receivable balances.

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

### (b) Related party transactions

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2005** | **2004** |
| | *Note* | *RMB'000* | *RMB'000* |
| The Ultimate Holding Company | | | |
| Exclusive advertising right expenses | *(i)* | 41,977 | 61,845 |
| Provision of printing services | *(ii)* | 37,347 | 6,705 |
| Rental income | *(iii)* | 1,990 | – |
| Sales of print-related materials | *(iv)* | 5,359 | – |
| Subsidiaries of the Ultimate Holding Company | | | |
| Provision of advertising services | *(v)* | 17,417 | 13,419 |
| Payment for delivery services | *(vi)* | 3,657 | – |
| Jointly controlled entity | | | |
| Rental income | *(iii)* | 55 | – |
| Associate of Ultimate Holding Company | | | |
| Provision of printing services | *(vii)* | 4,736 | – |
| Minority shareholders of a subsidiary | | | |
| Sales of print-related materials | *(viii)* | 20,516 | 13,051 |
| Payment for printing services | *(ix)* | 30,434 | 30,191 |
| Purchase of print-related materials | *(x)* | 4,351 | 4,571 |
| Other State-Owned Enterprises | | | |
| Provision of advertising services | | 1,300 | 151 |
| Sales of print-related materials | | 31,464 | 45,792 |
| Payment of printing services | | 33,197 | 29,009 |
| Purchase of inventory | | 104,173 | 98,694 |
| Interest income | | 8,957 | 2,681 |
| Interest expenses of bank loan | | 282 | 273 |

(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) Beijing Youth Daily Logistics Co., Ltd. ("BYD Logistic"), the subsidiary of the Company provided printing services to Beijing Sec-Tech Report and Legal Evening Post which are operated by the Ultimate Holding Company.

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

## 17. 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 Holding 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 provided printing services to the First China Business Post which is an associate company of the Ultimate Holding Company.

(viii) BYD Logistics sold print-related materials to certain minority shareholders.

(ix) BYD Logistics received printing services from certain minority shareholders.

(x) 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 (Note 19).

### (d) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | **2004** |
| | *RMB'000* | *RMB'000* |
| Salaries and other short-term employee benefits | 2,157 | 573 |

## 18. COMMITMENTS

### (a) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases:

| | As at 30 June 2005 *RMB'000* | As at 31 December 2004 *RMB'000* |
|---|---|---|
| Not later than one year | 592 | 525 |
| Later than one year and not later than five years | – | 328 |
| | 592 | 853 |

### (b) Capital commitments

The Company has approved a total amount of capital expenditures of approximately RMB234,000,000 which included the acquisition of other media businesses of approximately RMB200,000,000, development of topic-focused magazines on personal wealth management, lifestyle and cultural activities of approximately RMB30,000,000, and for the purchase of office and computer equipment of approximately RMB4,000,000.

## 19. CONTINGENT LIABILITIES

| | As at 30 June 2005 *RMB'000* | As at 31 December 2004 *RMB'000* |
|---|---|---|
| Guarantees for bank loans of the jointly controlled entity | 56,000 | 72,553 |

On 21 July 2004, the Company entered into a 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 security over a loan facility of US$6,000,000 granted to COL by China Minsheng Banking Corporation Limited.

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

## 20. COMPARATIVE FIGURES

Certain comparative figures presented in these unaudited condensed consolidated financial statements were adjusted for the impact of the relevant new HKFRSs as set out in Note 3.