Business Review

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

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

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

Industry Review

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

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

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

Advertising Business

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

Printing Business and Trading of Print-Related Materials

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

Organisation of Large-Scale Events

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

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

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

Prospects and Future Plans

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

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

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

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

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

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

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

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

Financial Position and Business Results

1. **Turnover**

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

2. **Cost of Sales and Operating Expenses**

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

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

3. **Gross Profit**

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

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

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

5. **Final Dividend**

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

6. Non-current Assets

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

7. Net Current Assets

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

Liquidity and Financial Resources

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

Equity-to-debt Ratio

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

Taxation

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

Bank Borrowings, Overdrafts and Other Borrowings

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

Finance Costs

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

Latest Business Development in 2005

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

Use of Proceeds from Listing

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

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

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

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

- The PRC government has tightened the limitation on the participation of foreign enterprises in the television broadcasting industry, and slowed down the development of the Company in such industry;
- The Company has spent considerable time on negotiation concerning a number of acquisitions because media industries, particularly newspapers and other media, are sensitive industries and are subject to many limitations imposed by the relevant authorities in the PRC.

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

Capital Structure

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

Investigation Findings of the Independent Financial Advisor

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

Capital Expenditures

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

Contingent Liabilities and Pledge of Assets

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

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

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

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

Foreign Exchange Risks

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

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

Staff

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

Disclosure of Shareholding Interests of Directors, Supervisors and Executive President

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

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

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

Purchase, Sale or Redemption of Listed Securities of the Company

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

Change of Board Members

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

Exemption from Compliance with Listing Rules

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

Audit Committee

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

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