Stock Code : 72

MODERN MEDIA HOLDINGS LIMITED ANNUAL REPORT 2012

現代傳播控股有限公司2012年年報

信奉魂創通 BELIEVE IN SPIRIT, CREATIVITY, REALIZATION

South Korean economist Lee Ji–hoon has highlighted Spirit, Creativity, and Realization as three essential factors behind the success of the companies and countries including South Korea. These are the core value or critical elements for any businesses aiming for high goals.

魂 SPIRIT

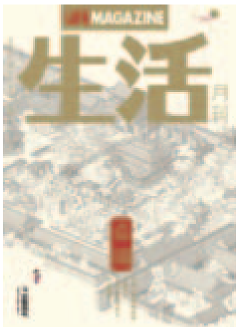
創

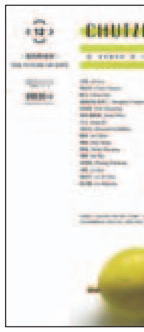
CREATIVITY

REALIZATION

韓國經濟學者李誌勛分析包括韓國在內諸多國家及
企業的成功原因，概括出三個字：魂、創、通。
這正是任何卓越企業成功的核心價值，或者說關鍵要素。

Pursuing the Spirit should be the first consideration
for any strategies or specific tasks at Modern Media.
It is an unswerving notion for us
in carrying out our mission of "Global Vision, Modern China";
it is our hope to push for an elite society through
an elite media; it should be our DNA in the process
of promoting our goal of globalization, taste, fashion,
and social responsibility.





現代傳播所做任何戰略和具體事情，
均首先考慮：魂。那就是**永恒不變的理念**。是“秉持國際視野、追尋現代中國”的使命，是“創辦精英媒體，推動精英社會”的願景，是“國際化、高品位、時尚化、社會心”的DNA。

Spirit does not stand on itself; it must be visualized through

Creativity–the ever changing form of innovation.

The "iChange" strategy that driving mobile internet era is Creativity.

Linkchic

iModernlady

iWeekly

The Art Newspaper

只有“魂”不行，必須通過“創”來實現—那就是永遠變化的創新創意。
引領移動互聯網時代的"iChange"戰略是“創”。

iBloomberg

Lohas

TOM

iMagazine

iMetro


中国大陆有750万
There are 7,500,000
4~16岁学龄残疾儿童
4 to 16-year-old children with disabilities in China
接受特殊教育服务率为4.53%
only 4.53% of these children receive special education services
不足50万
which is less than 500,000 children
She doesn't want to go there alone.
We want to prepare for her schooling.
文海英 校长
Wen Hai Ying Principal
松滋市现代传播特殊教育学校
任教20年
We have 49 teachers and 117 students.
which are mainly for the children of different types of disability.
These children
I want her to face the reality.
but she can also have a career in dancing
It's not only good for her health.
廖君秋 老师
Liao Jun Qiu teacher
松滋市现代传播特殊教育学校
自闭症训练中心 任教6年
That means you need to insist on it everyday.
吕红艳 副校长兼语文老师
Lv Yan Hong Vice-principal & Chinese teacher
松滋市现代传播特殊教育学校
任教16年
At that time,my husband was going to work in Beijing.
I want to be a masseur.
I have a dream.
I want to become a P.E. teacher.
I want to go to college.
I want to be a painter.

Modern Media Special Education School was built on 24th Sep. 2012
with aid of Modern Media Group.

由現代傳播援建的松滋市現代傳播特殊教育學校於2012年9月24日落成。

The push for necessary evolution inside the company by means of arts and philanthropy is also Creativity.


艺术新闻
THE ART NEWSPAPER
博览会疲劳症
美国博物馆将向中国出借更多艺术品

THE ART NEWSPAPER LONDON was launched in 1990.
It has four international sister editions:
IL GIORNALE DELL'ARTE TURIN, LE JOURNAL DES ARTS PARIS,
TA NEA TIS TECHNIS ATHENS and THE ART NEWSPAPER MOSCOW.
THE ART NEWSPAPER CHINA was launched in 2013.

《藝術報》英文版於1990年創刊。姐妹刊共4本：
意大利，法國，希臘，俄羅斯。中文簡體版於2013年創刊。

用藝術和慈善引領公司必要的革命也是“創”。

For content of the magazine,

we will also focus on Change, as it is the most sensitive,

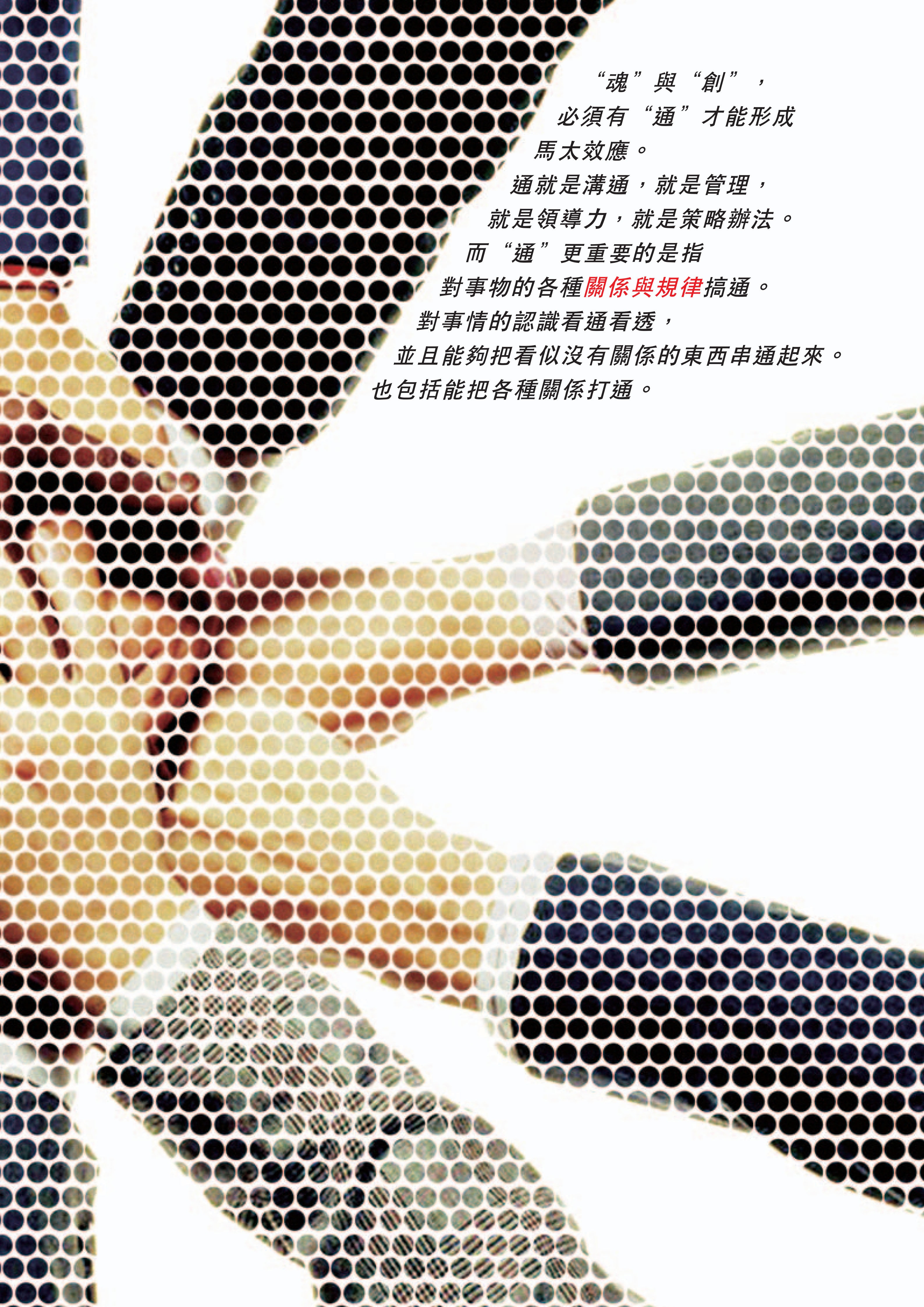
most cutting–edge and the most trendy theme.

落實雜誌內容上，我們也強調最敏銳、最前綫及最流行的改變。

Only through the mean of Realization, can the Matthew Effect of Spirit–cum–Creativity be achieved. Realization means communication,

management, leadership, strategy and tactics. More importantly, it refers to the understanding of various relationships and rules. By Realization, we can get insight into complicated affairs

and the abilities to link things which seem irrelevant at the first sight. It also means abilities to mobilize resources.



“魂”與“創”，
必須有“通”才能形成
馬太效應。
通就是溝通，就是管理，
就是領導力，就是策略辦法。
而“通”更重要的是指
對事物的各種關係與規律搞通。
對事情的認識看通看透，
並且能夠把看似沒有關係的東西串通起來。
也包括能把各種關係打通。

Spirit is a consistency, an ultimate, as well as a notion of concept;

Creativity is a change, an action as well as a method;

Realization is the smooth connection between the two.

“魂”就是不變，就是終極，就是意義，就是理念；

而“創”，就是變，就是行動，就是方法，就是觀念；

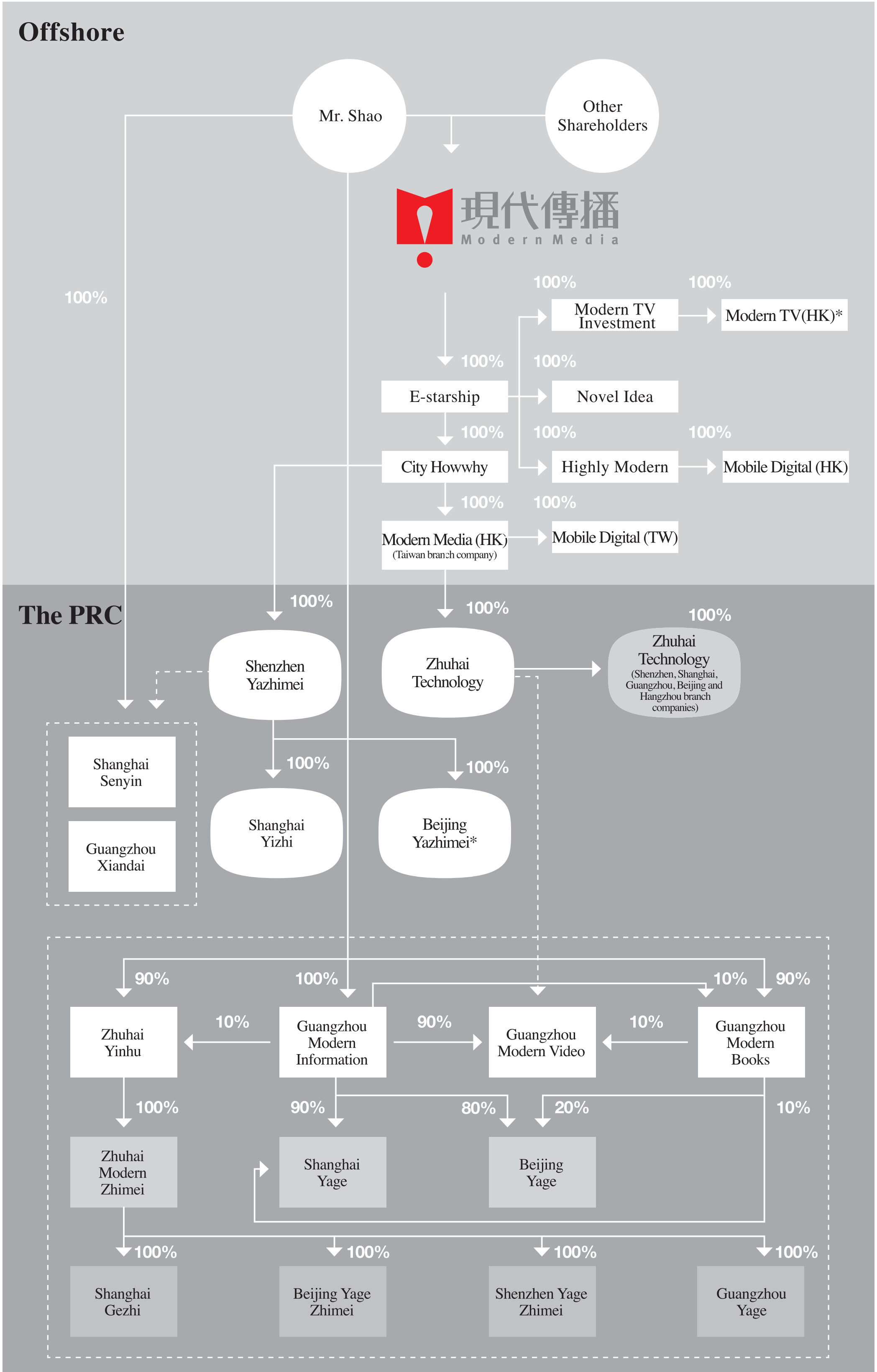
“通”就是將“魂”與“創”徹底打通的圓融和串通。

Everyone should make his view broader,
his way of thinking clearer, thus making his life full of wisdom.
The Spirit, Creativity and Realization theory is
the reflection of the power and wisdom.

每個人都應該讓自己的視野變得更廣闊，思路變得更清晰，
讓人生充滿智慧的能量。能夠講出充滿人生與工作哲理的
“魂、創、通”三個字，就是有智慧能量的體現。


魂
SPIRIT
創
CREATIVITY
通
REALIZATION

Corporate Structure



* Companies acquired or set up after 31 December 2012.
"———" denotes direct legal and beneficial ownership in the equity interest and
"- - - - -" denotes control through a series of contractual relationship.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Shao Zhong *(Chairman)*

Mr. Wong Shing Fat

Mr. Li Jian

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

Non-executive Director

Mr. Cheng Chi Kong *(Appointed on 1 April 2013)*

Independent Non-executive Directors

Mr. Jiang Nanchun

Mr. Wang Shi

Mr. Au-Yeung Kwong Wah

Mr. Mao Xiaofeng

AUDIT COMMITTEE

Mr. Au-Yeung Kwong Wah *(Chairman)*,
Mr. Jiang Nanchun, Mr. Wang Shi and Mr. Mao Xiaofeng

REMUNERATION COMMITTEE

Mr. Mao Xiaofeng *(Chairman)*
Mr. Wong Shing Fat, Mr. Jiang Nanchun and
Mr. Au-Yeung Kwong Wah

NOMINATION COMMITTEE

Mr. Wang Shi *(Chairman)*
Mr. Au-Yeung Kwong Wah, Mr. Jiang Nanchun, Mr. Mao Xiaofeng

COMPANY SECRETARY

Mr. Mok Chun Ho, Neil *(FCPA (Practising), ATIHK, ACIS)*

AUTHORISED REPRESENTATIVES

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

Board of Directors
董事會


執行董事
莫峻皓
Mok Chun Ho, Neil
Executive Director
執行董事
厲劍
Li Jian
Executive Director
執行董事
黃承發
Wong Shing Fat
Executive Director

Corporate Information *(continued)*

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Units A, B & C, 10/F, Exhibition Centre
No. 1 Software Park Road, Zhuhai
Guangdong Province, the PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1101-1103, 11th Floor
1063 King's Road, Quarry Bay
Hong Kong

PRINCIPAL BANKERS IN HONG KONG

Hang Seng Bank Limited
Wing Lung Bank Limited

PRINCIPAL BANKERS IN THE PRC

China Merchants Bank
(Shanghai Branch, Xujiahui Sub-branch)
The Bank of East Asia (China) Limited
(Guangzhou Branch)
China MinSheng Banking Corporation
(Beijing Guangan Men Sub-branch)

Corporate Information (continued)

REGISTERED OFFICE

Floor 4
Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

Stock code: 72

WEBSITE

www.modernmedia.com.cn

Chairman's Statement 主席報告

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Modern Media Holdings Limited ("Modern Media" or the "Company"), it is my great pleasure to announce the results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

In 2012, the global economy faced numerous difficulties. European countries continued to be clouded by the haze of the sovereign debt crisis. The U.S. fiscal cliff was also imminent. As a result, the process of global economic recovery became very slow. In the face of a complex and challenging foreign economic situation, China's economic development was also affected. The gross national product increased by 7.8% year on year in 2012, which was the slowest growth recorded since 1999. A slowdown in the pace of economic growth in China inevitably had an impact on the advertising industry closely related to the economic cycle. As the growth of the advertising industry slowed down during the year, advertising customers became more cautious about the choice of the platform for the placement of advertisements and the budget.

2012 was a turning point for Modern Media whereby the Group continued to develop from print media towards multi-media covering the three strategic businesses of print media, mobile digital media and TV. Despite the weakness of the China advertising market in 2012, the Group managed to overcome the challenges brought by economic uncertainties and recorded an impressive performance for the year, which fully demonstrated that the Group's strategic reorganization was implemented properly. During 2012, the Group adhered to the philosophy of "Spreading the word about modern China and promoting her image in the international arena" whereby the Group kept on actively developing a diversified media business by leveraging its leading position among integrated media enterprises and its far-sighted broad perspective. The core print media business was progressing steadily while the development of the mobile digital media and TV businesses was encouraging. Thanks to the successful promotion of a diversified media business development strategy, the Group's turnover increased by 11.8% to approximately RMB655,313,000 (2011: approximately RMB586,186,000). Profit attributable to equity shareholders of the Company increased by 8.3% to approximately RMB65,268,000 (2011: approximately RMB60,278,000). Earnings per share amounted to RMB0.15 (2011: RMB0.14).

During the year, "Modern Weekly", the Group's flagship magazine, continued to strengthen its leading market position among lifestyle weekly magazines in the PRC. As a new century publication for elites in the PRC, "Modern Weekly" provides high-quality contents covering finance, news and urban life for mainland readers with a global vision and successfully attracted a large number of world-class fashion consumer brand and luxury advertisements. "Modern Weekly" continued to expand its leading edge with direct competitors in the market and ranked first in terms of advertising income generated by lifestyle weekly magazines in the PRC for seven years consecutively. To readers, the cooperation with "New York Times" and "The Economist" in contents had proven the status and content quality of "Modern Weekly" and also increased brand awareness for advertisers.

The Group's another famous weekly magazine, "Modern Lady Weekly", is currently a high-end modern women lifestyle weekly magazine leading in sales with its content focusing on "cultivating oneself, regulating the family, travelling around the world" and is a publication providing "one-stop" reading and total solutions for an elegant life. During the year, "Modern Lady Weekly" continued to gain strong support from readers and advertising customers and ranked No.1 in the circulation volume among all women lifestyle weekly magazines in the PRC for four consecutive years since its launch and became one of the major growth drivers of the Group.

"Bloomberg Businessweek/China", the Group's third flagship (bi-weekly) magazine, is the latest growth driver of the Group's print media business and has posted outstanding performance since its publication in 2011 with encouraging results in both circulation volume and advertising volume and successfully attracted more advertisers from different industries to place advertisements. The advertising income growth of the magazine was better than expected in the first full year operation. The Group expects these three flagship magazines will become important pillars of the Group's print media business.

The Group has paid close attention to the trend of the development of digital media and actively expanded multi-media platforms other than magazines. It continued to optimize and launched a series of mobile media applications that can cover different modes during the year. The Group has launched a series of popular applications such as "iWeekly", "Bloomberg Businessweek", "iMagazine", "Lohas" and "iModernlady" for use in various operation platforms. In particular, "iWeekly" continued to be one of the most popular Chinese media applications with over 8 million subscribers. This not only caused extensive enthusiastic responses from subscribers but also triggered the interest of advertisers in experiencing the new marketing channels. The most influential financial and commercial application, "Bloomberg Businessweek", has been downloaded by more than 1.8 million subscribers since its launch in November 2012. Through launching a series of new media applications, the Group has initially constructed a complete mobile publication platform. It is expected that "iWeekly" and "Bloomberg Businessweek" will provide a strong and stable new media advertising platform for the Group, which will create tremendous opportunities for generating advertising incomes.

As a leading integrated media enterprise, the Group produced and distributed a series of TV programmes for elite groups covering such contents as life, fashion, food and entertainment. In the second half of 2012, the Group adjusted the business strategy of TV media. Currently, it mainly provides customized productions for brand advertising customers and its revenue doubled in the year. The TV business is an indispensable important part for constructing the multi-media platform and is expected to breakeven within the next couple of years and win recognition and favour from more customers.

Looking forward to 2013, despite the continued instability of the global economic climate and the still many uncertainties associated with the macroeconomic environment, China is still the locomotive for driving economic growth. The Group is cautiously optimistic about the future prospects. With the acceleration of urbanization and the domestic demand driven by increasing national income, it is expected the Chinese economy will still see bright prospects amidst numerous challenges. The advertising industry will also follow the market to recover gradually.

To strive for the steady and sustainable growth of print media, the Group plans to launch two traditional Chinese printed versions of "Bloomberg Businessweek" in 2013 with one version for Hong Kong and Macau and the other for Taiwan, which will make it the first magazine distributed simultaneously in both traditional and simplified Chinese in the Greater China region. This not only expands our influence in the Hong Kong and Taiwan media markets but also has important strategic significance to the Group. In addition, the Group will launch the issue of "The Art Newspaper/China", a supplement to "Modern Weekly", each month starting from the first quarter of 2013 to satisfy the market's eagerness for contemporary Chinese art and build up its image of a leading Modern Media brand in China.

The digitalization of the development of the media industry is a major trend. Digital media will inject new growth momentum into the future of the Group. The Group plans to launch a series of media applications to establish a diversified mobile publication platform to attract a large number of elite online readers and will continue to invest resources to step up efforts in developing digital media and related businesses. The Group intends to cooperate with the world-renowned Agence France-Presse ("AFP") in the second half of 2013 to launch the online Chinese news service, "iAFP中文網". Meanwhile, the Group is also active in improving the strategic deployment of the shopping guide platform with an aim to generate synergy with the mobile publication platform and seek to establish strategic partnership with online e-commerce operators and brand marketers. We have confidence digital media will make significant contribution to the turnover and profit of the Group in the near future.

With the Group's two major growth drivers of print media and mobile media, we are fully confident in the future development prospects of the Group. 2012 marked the 20th anniversary of the founding of Modern Media. The Group has been growing rapidly in the past two decades and made brilliant achievements repeatedly, successfully establishing its leading position in the high-grade magazine sector of China. The Group will adhere to its consistent aim and persist in the continued pursuit of attitude, belief and creativity. Besides, it will shoulder the historical responsibility and mission of local original, private media to carry on the past and open a way for the future so as to greet the next two glorious decades of Modern Media.

With the concerted efforts of all employees as well as the long-term great support and encouragement from its clients, shareholders and business partners, the Group will flexibly cope with changes in the business environment in order to capture new opportunities, and achieve steady progress. The Group is determined to become the most respectable and influential integrated media enterprise in Greater China and is committed to generating satisfactory returns for shareholders.

Shao Zhong
Chairman
19 March 2013

Management Discussion & Analysis

RESULT SUMMARY

2012 saw contraction of the developed economies as well as slowdown in growth in large emerging markets, which highlighted the underlying weakness and downside risks of the global economy. However, the Group overcame the challenge of economic uncertainties and delivered a fair financial result throughout the year. The Group's core print media was on a healthy growth track, while its mobile digital media and TV business had a satisfactory performance in 2012. The Group's turnover for year 2012 amounted to approximately RMB655.3 million, represented an increase of 11.8% compared with that of year 2011. This was mainly attributable to the stable performance of its leading print media products, as well as a generally healthy advertising market in the PRC. The Group's two flagship weekly magazines, the "Modern Weekly" and "Modern Lady Weekly" together with the renowned bi-weekly business magazine, the "Bloomberg Businessweek/China", achieved a beyond-industry-average growth during 2012. Further, the revenue of the "iWeekly", one of the most popular Chinese media applications ("Apps"), achieved yearly revenue growth of 90.7% in 2012. Despite the dilution caused by the launch of its new Apps such as "Bloomberg Businessweek" and transition of the business model in TV media division, the Group recorded a net profit of approximately RMB65.3 million for the year 2012, representing a growth of 8.3% as compared to that of the year 2011. The Directors are satisfied with the financial performance and the strategic milestones achieved by the Group.

(A) BUSINESS REVIEW

2012 was a turning point for the Group as it continued to shift from print media to multi-media arena. Since 2011, the Group has strategically restructured its business into three business segments, namely print media, mobile digital media and TV. In 2012, print media maintained as the major income contributor of the Group's advertising revenue while digital media and TV segment began to generate revenue at a relatively rapid pace.

(i) Print Media

The Group is one of the leading media groups in the PRC and Hong Kong operating two national weeklies, one national bi-weekly, two local weeklies, five monthly magazines and two bi-monthly magazines in the PRC, and one monthly magazine in Hong Kong, which cover topics of lifestyle, news, finance, culture, art, health, etc. Revenue generated from print media was mainly attributable to advertising and circulation revenue. The Group achieved satisfactory result, which was above the market average performance, in such sources of revenue in 2012.

(1) Advertising

2012 was not an easy year for many business enterprises. There was a slowdown in the economic growth in the PRC with a GDP decrease from 9.2% in 2011 to 7.5% in 2012, mainly resulting from the impacts of the accelerating inflation, slowdown in export growth and sluggish property market. Gradually, those negative factors created an impact on the advertising market. It is estimated by ZenithOptimedia and CTR that the advertising market was still on a continuous upward trend but the growth stayed slow in 2012. The advertising revenue of the Group in the PRC was approximately RMB614.8 million (2011: RMB578.0 million), representing a moderate increase of approximately 6.4% on a yearly basis.

The expenditure in the retail business in China suffered a distinct slowdown in 2012, especially for the second half of the year, in which the auto industry merely achieved a growth of 7.0% (2011: 15.0%), and the fashion & cosmetic industry achieved a growth of 17.0% (2011: more than 20.0%). Moreover, the growth in the watch & jewelry industry went through a severe slowdown from approximately 50.0% in 2011 to 16.0% in 2012.

Management Discussion & Analysis

The advertisement market faced a lackluster period due to the negative impact in retail business. The traditional advertisement market accomplished a relatively small growth of 4.5% (2008-2011 average growth: 13.5%) in 2012, in which magazine category only managed to survive with a growth of 2.0% and the newspaper category even suffered a decrease of 7.5%. The gloomy trend was even more obvious in the second half of 2012, in which magazine category had no substantial increase compared to 2011. The advertisement expenditure of auto and cosmetic categories almost remained the same when compared to that of 2011. Despite the weak market, the Group still managed to achieve a growth of 6.4% for its print media advertising segment, which was above the market average in advertisement revenue by leveraging the dominant leading position in print magazine market, in which revenue generated from auto and watch & jewelry advertisement remarkably accomplished a growth of 17.0% and 21.0% respectively.

The Group's flagship weekly magazine, "Modern Weekly", firmly maintained its leading position and continued to widen the leading gap with its direct competitors in the market. It maintained a moderate growth and achieved positive financial results during 2012. According to the surveys by Admango Limited, "Modern Weekly" has ranked No. 1 in the advertising revenue for 7 consecutive years within category of lifestyle weekly magazines in the PRC. In 2012, "Modern Weekly" was in a sluggish advertising environment, especially in the 4th quarter, and achieved a slight increase in its advertising revenue when compared to the same period of 2011. However, the Group implemented an effective control over the operating costs which made "Modern Weekly" achieve an increase in operating profits in 2012. Furthermore, the content cooperation with New York Times and The Economist had proven the status and content quality of "Modern Weekly" towards its readers and also created a greater brand recognition to the advertisers.

The other flagship magazine, "Modern Lady Weekly", being one of the most popular women's lifestyle weekly magazines in the PRC, continued to perform well in 2012. It also recorded a moderate increase in advertising revenue when compared to 2011 under the stagnant advertising market in 2012. According to market survey published by Beijing Kai Yuan Circulation Research Company, "Modern Lady Weekly" has ranked No. 1 in circulation among all women lifestyle magazines in the PRC for four consecutive years since its launch in 2008. "Modern Lady Weekly" launched a series of interactive marketing campaigns with readers by the readers' club named "You Jia Hui" over a number of cities in the PRC. Such series of marketing events attracted widespread attention and received positive feedbacks from both advertisers and readers.

"Bloomberg Businessweek/China", being the Group's third flagship magazine (bi-weekly), rapidly became a new profit engine of the Group's print media business. It triumphantly attracted more advertising placements from additional brand advertisers beyond the existing clientele including banking, insurance, wealth management and professional human resources agencies. As the result, the magazine recorded better than expected advertising revenue growth in its first full-year of operation. The Directors firmly believe that this new magazine title together with "Modern Weekly" and "Modern Lady Weekly" will become the major cornerstone of the Group's print media business.

Among other monthly magazines operated by the Group in the PRC and Hong Kong, the total advertising revenue maintained a moderate increment in 2012 compared to that of 2011. Such portfolio of magazines is important for the Group's marketing strategy for attracting the segmented readers and advertisers.

On the other hand, the Group cooperated with some local partners to issue two local weekly lifestyle magazines in Hangzhou and Chongqing. Those publications succeeded in arousing readers' attention and attained a moderate growth in advertising revenue especially in Chongqing. Both magazines were almost break even during 2012. The management is confident that those two investments will have a favorable operating result in the future.

(2) Circulation

The circulation revenue in 2012 amounted to approximately RMB16.1 million (2011: RMB21.7 million), decreased by approximately 25.8% compared to that of 2011. The decrease was mainly attributable to the following reasons: (1) there was an adjustment of publication portfolio. Compared with 2011, the portfolio increased by one new magazine, "Bloomberg Businessweek/China" but the Group took out two magazines, namely "Asian Business Leader" (東方企業家) and "Intersection" (汽車生活) in 2012; and (2) In order to promote the Group's titles in the highly competitive magazine market, the Group increased the discount ratio in selective distribution channels as a strategy to support the advertising revenue.

(ii) Mobile Digital Media

During 2012, the mobile digital media achieved satisfactory results in terms of operating results, product development and resources development. The Group launched a series of successful Apps, namely "iWeekly", "Bloomberg Businessweek", "iMagazine", "Lohas" and "iModernlady" on multiple operating platforms, including the iOS and Android systems.

"iWeekly" continuously remains to be one of the most popular Chinese media Apps with 7.4 million users by the end of 2012, which remained the No. 1 position among all Chinese media applications. The popularity of "iWeekly" also aroused the interest of advertisers to experience a new channel of marketing promotions. In 2012, "iWeekly" achieved an advertising revenue of approximately RMB30.0 million and being one of the leading applications on "iPhone" and "iPad". In addition to the success on the commercial side, "iWeekly" also achieved major technical upgrades in 2012. Leveraging on the success of "iWeekly" on iOS system of Apple Inc., it released the Android version in May 2012. With continuous improvement in contents and user experiences, the Directors are confident that "iWeekly" will maintain its leading position and achieve significant advertising revenue growth in the coming years.

In addition to "iWeekly", the Group launched another important App with financial and business contents in Chinese language, namely "Bloomberg Businessweek", in November 2012. Within several weeks since its launch, the new App had been downloaded by over 370,000 users. After the launch of "Bloomberg Businessweek", this App earned an enthusiastic official recommendation from Apple's App Store. Besides published contents of the print magazine, this business App includes additional news and multimedia contents licensed from Bloomberg L.P. This App had provided the Group with a strong and stable new media advertising platform in additon to "iWeekly" and is expected to create increasing opportunities for advertising revenue.

Besides the two above-mentioned Apps, the Group also launched other new apps in 2012, including "Lohas", "iTom", "iModernlady", "iMetro" etc. Through the launch of these new media Apps, the Group has preliminarily constructed a comprehensive mobile publication platform.

(iii) TV media

The Group has already established a competent professional TV production team and such team members are very critical for the Group's development of its multi-media business. In the 2nd half of 2012, the Group re-defined its business strategy to focus on customized production for its brand advertisers. The TV media segment had achieved a revenue of RMB5.2 million (2011: RMB2.7 million) representing an increase of approximately 92.6% in 2012 when compared to that of 2011. The new strategy has largely reduced the production cost through cutting the hours of self-sponsored programs and brought a significant bottom-line turnaround. Compared to the loss of RMB7.6 million reported in the interim result of 2012, TV media managed to reduce the loss to RMB2.6 million in the 2nd half of 2012. Looking forward, the Group's TV media will continue this business model and focus more on customized production for advertisers in the future. The Group gradually established a dedicated broadcasting platform by launching a series of Apps such as "iWeekly", "Bloomberg Businessweek" and "Lohas" etc. With ample subscriber base in those successful Apps, the Group will have an additional revenue stream by charging those advertisers if they intend to broadcast their TV commercial on those Apps. The Directors are confident that the TV media will break even or even become profitable in the coming years.

(B) BUSINESS OUTLOOK

The media industry is currently experiencing significant revolution that the leading positions of traditional media are being challenged by digital media. At the same time, digital media itself is also undergoing a change from technology-driven to content-driven. As a quality content producer, the Group is excited about the prospects of the content-driven digital media era. The Group has defined a 3-step long-term strategy to develop an integrated media business. In the past decade, we had established a leading magazine portfolio in print media. In the past three years, we have successfully converted the print contents into "iContents", contents in digital format, through the launches of series of digital media, such as "iWeekly" and "Bloomberg Businessweek". From 2013 and onwards, we will determinately move into the 3rd step of the strategy. Besides continuing to complete the "iContents" strategy through launching new products, we will start to implement the "iShopping" strategy, to launch media-driven eCommerce platform.

(i) Steady and sustainable growth of print media

Looking ahead, the Group is cautiously optimistic with the outlook of the global economy in 2013. The situation of Euro zone debt crisis seems to be stabilized and the U.S. economy begins to show signs of growth. The PRC remains the locomotive to propel the economic growth where its GDP growth is forecasted to be 7.5% in 2013. Further, it is believed that the new PRC government will implement stimulus policies in order to enlarge the domestic consumption. The Directors believe that the Group's media platform will be largely benefited from the above. It is expected that with its market leading positions, "Modern Weekly" shall sustain a above-average growth in the advertising revenue, and further improve its profit margin through its matured magazine title. Moreover, "Modern Lady Weekly" and "Bloomberg Businessweek/China" are expected to maintain their reasonable growth momentum since they are still in early stages of their product life-cycle. These three weekly/ bi-weekly magazines will take the major role to lead the future business growth of the Group's print media business. In the meantime, the Group will also take appropriate measures to improve the profitability in the print media, including initiatives to rationalize the magazine portfolio and to control operating costs.

Although the print media has been under a growth pressure in developed markets, such as the United States, there are still rooms for print media to grow in the PRC market. As a typical presentation format of elite media, print magazine will attract more and more demand along with the increasing population of elite class in the region. Compared to the consumption of magazine per capita in the developed markets, the PRC consumption level is relatively low. Therefore, the Group will continue its necessary investment efforts in the print media.

Management Discussion & Analysis

Becoming a regional Publisher

As a result of the success of "Bloomberg Businessweek/China", the Group entered into a supplementary agreement with Bloomberg L.P. in December 2012. The Group is planning to launch another two print versions of "Bloomberg Businessweek" in Traditional Chinese, one for Hong Kong and the other for Taiwan. The Group anticipates two strong reasons to launch these new titles. Firstly, the Directors are of the view that both Taiwan and Hong Kong lack quality business magazines integrating global vision and local coverage. Secondly, the established publishing foundation of "Bloomberg Businessweek/China" in mainland China provides cost and resources synergy to launch the additional regional edition. Those two new magazines are planned to be issued in 2013. "Bloomberg Businessweek" will become the first magazine with both the Traditional and Simplified Chinese versions to be issued at the same time in the Greater China region. The Group believes that the launch of these two new business magazines will not only bring in additional advertising revenue, but will also enhance its market influence in both Hong Kong and Taiwan media market. Further, as it is expected that China will achieve a more important role in the global arena, the Group believes that the Chinese culture and vision will have greater influence first in the region, then towards the world. Therefore, it is the Group's long term strategy to further expand its publishing territory beyond mainland China. The current pursuits of launching new titles in Hong Kong and Taiwan is the first step of this strategy.

(ii) Building a leading digital media platform

While print media is the foundation of the Group's business, digital media is its future. The entire media world is becoming more digitalized. Both readers and advertisers are re-shaping their behavior patterns, particularly increasing their activities on-line. The Group has a strategy to determinately investing in building a digital media content platform.

In the past three years, the Group established a mobile publication platform through launching a series of media Apps to attract a number of elite on-line readers. The launches of "iWeekly", "Bloomberg Businessweek", "iMagazine", "iLohas" and "iTom" in the recent years are important initiatives in constructing this platform. Meanwhile, as it was announced on 7 March 2013, the Group intends to cooperate with the globally renowned Agence France-Presse ("AFP") to launch an on-line Chinese language news service for lifestyle, culture, art, and other subjects ("iAFP中文网") in the second half of 2013. This service is expected to provide timely updated contents to both business and personal users, and further elevate the Group's influence in digital publication. Currently, the Group has attracted nearly 10 million users on this platform. With the launches of additional Apps, as well as additional versions of existing Apps, such as Android version and Windows 8 version, the Group anticipates to attract much more users in the near future. In this mobile publication platform, the Group will continue to adopt advertisement plus subscription business model as in the print media business. The commercial success of "iWeekly" has proven the effectiveness of Mobile Media.

(iii) Constructing a media-driven "iShopping" platform

This platform will be a virtual shopping mall for selective lifestyle and fashion brands provides media-driven contents to inspire readers' impulsion for on-line shopping, and link them to strategic e-commerce partners to complete their shopping experience. Through the services, the Group aims to be benefited from both on-line promotional advertising and transactional commissions. The launch of "iModernlady" and "iMetro" as well as the shopping guide website in first half of 2013 were important deployments of developing this iShopping platform. In 2013, the Group will focus on perfecting the shopping-guide website into a virtual shopping mall. The Group will develop effective initiatives to migrate the visit traffics from the populous mobile publication platform towards the iShopping platform. In addition, the Group will develop strategic partnerships with on-line brand marketers.

Proposed investment to be made with United Achievement Limited

By an announcement dated 24 June 2011, the Company announced that the Group entered into two framework agreements with United Achievement Limited in relation to the proposed establishment of certain joint ventures to engage in digital media publishing and distribution business and e-commerce business respectively. As at 31 December 2012, the Group was still in discussion with United Achievement Limited and no definitive agreement were entered in this regard. The Company is still considering the terms then under negotiation and is willing to form such joint ventures, subject to mutually acceptable terms being agreed and finalized. The Company will make further announcement on such matter where the circumstances so justify.

(C) FINAL DIVIDEND

The Directors proposed to declare a final dividend of HK5.5 cents (2011: HK3.5 cents) per share, amounting to approximately HK$24.1 million in aggregate. Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed dividend will be paid to shareholders whose names appear on the register of members of the Company on 22 May 2013 and the expected date of payments is 14 June 2013. This proposal is subject to shareholders' approval at the forthcoming annual general meeting to be held.

(D) BOOK CLOSURE

The Annual General Meeting of the Company is scheduled on Wednesday, 15 May 2013. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Monday, 13 May 2013 to Wednesday, 15 May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrars in Hong Kong, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 10 May 2013.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is 24 May 2013. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to be qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited for registration not later than 4:30 p.m. on Tuesday, 21 May 2013. The payment of final dividend will be made on Friday, 14 June 2013.

Management Discussion & Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Net cash flows

During the year, the Group had a net cash inflow for operating activities of approximately RMB73.3 million (2011: RMB56.5 million), which were largely attributable to the increase in operating profits. The increase in operating profits was mainly resulted from remarkable operating performance of the Group's portfolio of magazines. On the other hand, the Group's cash outflow from investing activities amounted to RMB60.0 million (2011: RMB58.4 million) which was mainly attributable to (a) payment for purchase of fixed assets in various offices, and (b) partial payment of the acquisition of 100% equity interests in Shanghai Senyin Information Technology Company Limited ("Shanghai Senyin") and Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited ("Guangzhou Xiandai") and 20% equity interests in Rakuraku Technologies Inc.. The Group's cash outflow from financing activities amounted to RMB18.6 million (2011: inflow of RMB64.5 million) which was mainly owing to the payment of dividend of RMB12.3 million and the net repayment of bank loans of RMB3.4 million.

Amounts due from Guangzhou Zhongde

As at 31 December 2012, other receivable included the amounts of RMB2.9 million (2011: RMB9.7 million) due from Guangzhou Zhongde Consultation Company Limited ("Guangzhou Zhongde"). Guangzhou Zhongde was previously owned by Mr. Shao Zhong, an executive Director and controlling shareholder of the Company and subsequently disposed to an independent third party in May 2009. The amounts due from Guangzhou Zhongde were, as a result, reclassified to other receivables at 31 December 2009.

Borrowings and gearing

As at 31 December 2012, the Group's outstanding borrowings was approximately RMB45.4 million (2011: RMB48.8 million). The total borrowings comprised secured bank loans of approximately RMB21.5 million (2011: RMB34.7 million) and other unsecured bank loan of approximately RMB23.9 million (2011: RMB14.1 million). The gearing ratio as at 31 December 2012 was 7.6% (31 December 2011: 8.8%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

As at 31 December 2012, the total debts of the Group were repayable as follows:

	2012 RMB'000	2011 RMB'000
Within 1 year or on demand	34,014	35,695
After 1 year but within 2 years	1,870	1,715
After 2 years but within 5 years	6,488	6,020
After 5 years	2,992	5,371
	11,350	13,106
	45,364	48,801

CAPTIAL EXPENDITURE

Capital expenditure of the Group for the year include expenditure on fixed assets of approximately RMB25.4 million (2011: RMB52.2 million). Major expenditure included the purchase of furniture, fixtures and equipment.

ACQUISITIONS AND INVESTMENTS

In February 2012, the Group completed the acquisition of 100% equity interests in Shanghai Senyin and 100% equity interests in Guangzhou Xiandai (together referred to as the "Website Acquisition") for a consideration of RMB18,000,000.

In March 2012, the Group entered into an agreement with an independent third party to acquire the business operation of "Mobilezine" and its related assets for a consideration of RMB5,000,000.

In addition, the Group completed an acquisition of 20% shareholding in Rakuraku Technologies Inc. for a consideration of JPY45,000,000 in March 2012.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Save for the corporate guarantee given to banks and the Group's major printing supplier to secure the banking facilities and printing credit line, as at 31 December 2012, the Group did not have any material contingent liabilities or guarantees other than those disclosed below.

As at 31 December 2012, the Group's bank loans of RMB13.1 million was secured by mortgages over the Group's properties in Beijing, the PRC, guarantees from Shanghai Gezhi Advertising Co., Ltd, a subsidiary of the Group. In addition, the Group's bank loan of RMB8.4 million was secured by pledged deposit.

As at 31 December 2012, the Group's printing credit line in an amount of approximately RMB23.0 million was secured by corporate guarantee given by the Company.

FOREIGN EXCHANGE RISKS

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant. The Group did not enter into any foreign exchange hedging instruments during the year 2012.

EMPLOYEES AND SHARE AWARD PLAN

As at 31 December 2012, the Group had a total of 1,057 staff (2011: 973 staff), total staff costs (including Directors' remuneration) were approximately RMB207.9 million (2011: RMB167.4 million). The emoluments of the Directors and senior management are reviewed by the Remuneration Committee. The increase in head counts was due to the launch of "Bloomberg Businessweek" and the business combinations in 2012.

To recognize and reward the contribution of eligible employees for contributing to the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company approved an employee share award plan on 3 December 2009. The Plan has become effective on 7 December 2009. The Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. During the year ended 31 December 2012, 430,000 shares were awarded and vested to selected employees, under the Share Award Plan, as approved by the Board of Directors of the Company.

Corporate Governance Report

The Company is committed to ensuring high standards of corporate governance in the interests of the shareholders of the Company and devotes considerable efforts to identifying and formalizing best practices.

CORPORATE GOVERNANCE REPORT

The Company has applied the principles set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "CG Code").

The Directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year. The Group also adheres to the recommended best practices of the CG Code insofar as they are relevant and practicable.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year.

THE BOARD OF DIRECTORS

The Board recognizes its responsibility to act in the interests of the Company and its shareholders as a whole. At 31 December 2012, the Board has nine Directors: five Executive Directors and four Independent Non-executive Directors. Independent Non-executive Directors represent more than one-third of the Board.

As at the latest practicable date prior to the issue of this annual report, the Directors of the Company are:

Executive Directors
Mr. Shao Zhong *(Chairman)*
Mr. Wong Shing Fat
Mr. Li Jian
Mr. Mok Chun Ho, Neil
Mr. Cui Jianfeng

Non Executive Directors
Mr. Cheng Chi Kong (appointed on 1 April 2013)

Independent non-executive Directors
Mr. Jiang Nanchun
Mr. Wang Shi
Mr. Au-Yeung Kwong Wah
Mr. Mao Xiaofeng

The biographies of all the Directors, including their relationships, are set out on pages 46 to 47 of this Annual Report. The Board is chaired by the Chairman, Mr. Shao Zhong. Mr. Wong Shing Fat, Executive Director and Chief Executive Officer, oversees the management of the Group's business with the assistance of the Group's senior management team. Each Director brings a wide range and years of business experience to the Board. The Directors' combined knowledge, expertise and experience are extremely valuable in overseeing the Group's business. The Board sets the strategic direction and oversees the performance of the Group's business and management. The following key matters must be approved by the Board before decisions are made on behalf of the Company:

- Strategic direction
- Budgets
- Interim and annual financial results
- Interim and annual financial reports
- Significant investments
- Major acquisitions and disposals
- Major financings, borrowings and guarantees
- Material contracts
- Risk management

In addition, the Board discusses major operating issues, evaluates opportunities and business risks, and considers corporate communications and human resources issues. Decisions and conduct of matters other than those specifically reserved to the Board are delegated to management.

The Board will review the arrangements between the responsibilities of the Board and the matters delegated to management from time to time to ensure that they remain appropriate to the need of the Group and its business.

Board Proceedings

The Board holds two regular meetings annually, usually half-yearly, and also meets at such other times as are necessary. Agenda of Board meetings are presented to the Directors for comments and approval. The Board is provided with adequate, timely and reliable information about the Group's business and developments before each Board meeting at which the Directors actively participate and hold informed discussions. All Directors are asked to review and comment on the Board minutes within a reasonable time after the meetings to maintain accurate records of Board discussions and decisions. The number of Board meetings held and meetings attended by each of the Directors were:

	Meetings attended	Meetings held during 2012
Mr. Shao Zhong	5	6
Mr. Wong Shing Fat	4	6
Mr. Li Jian	3	6
Mr. Mok Chun Ho, Neil	5	6
Mr. Cui Jianfeng	5	6
Mr. Wang Shi	1	6
Mr. Jiang Nanchun	1	6
Mr. Au-Yeung Kwong Wah	4	6
Mr. Mao Xiaofeng	3	6
Mr. Cheng Chi Kong (appointed on 1 April 2013)	0	6

Note 1: On 3 December 2009, the Board resolved that, for transactions falling under Chapter 14 of the Listing Rules but with the amount involved less than HK$ 20 million and that all relevant percentage ratios not exceeding 5%, the same may be approved by any two Executive Directors, provided that within 5 working days from the date of signing of the agreement(s) for the transaction, a copy of such agreement(s) must be circulated to all Directors (including Independent Non-executive Directors). Out of the 6 Board meetings held, 2 fall within such category of meeting.

All the Directors have access to the advice and services of the Company Secretary to ensure all board procedures are followed. There are also written procedures for the Directors to obtain independent professional advice at the Company's expense.

Appointment, Re-election and Removal of Directors

The Board confirms the term of appointment and functions of all Independent Non-executive Directors and Board Committee members with formal letters of appointment. Each Independent Non-executive Director is appointed for an initial term of two years. Directors who are appointed to fill vacancies are subject to re-election at the first annual general meeting of the Company after his or her appointment. In addition, every Director, including every Independent Non-executive Director, shall retire from office by rotation at least once every three years. One-third of the Directors are required to retire by rotation from office at every annual general meeting under the Company's Article of Association. A retiring Director is eligible for re-election.

Induction and Continuing Development of Directors

The Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

During the period from 1st April, 2012 to 31st December, 2012, all Directors of the Company, namely, Mr. Shao Zhong; Mr. Wong Shing Fat; Mr. Li Jian; Mr. Mok Chun Ho, Neil; Mr. Cui Jianfeng; Mr. Wang Shi; Mr. Jiang Nanchun; Mr. Au-Yeung Kwong Wah; and Mr. Mao Xiaofeng, received regular updates on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. They also attended regulatory update sessions and seminars on relevant topics. All Directors were requested to provide the Company with their respective training record pursuant to the CG Code.

Directors' Remuneration

The Directors' fees and all other reimbursements and emoluments paid or payable to the Directors during the year are set out, on an individual and named basis, in note 10 to the financial statements of this Annual Report on page 91. The remuneration policy of the Group is set out on page 58 of this Annual Report.

Independence of Independent Non-executive Directors

The Board has received from each of the Independent Non-executive Directors a confirmation of his independence according to the guidelines set out in Rule 3.13 of the Listing Rules. The Board is of the view that all Independent Non-executive Directors of the Company are independent and is grateful for the contribution and independent advice and guidance that they have been giving to the Board and the Board Committees.

Other matters relating to the Board

In relation to financial reporting, all Directors acknowledge their responsibilities for preparing the accounts of the Group. The Group has appropriate insurance in place to cover the liabilities of the Directors and senior executives of the Group.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Shao is the Chairman of the Company and is mainly responsible for providing leadership and directions to the Board. Mr. Wong Shing Fat is the Chief Executive Officer of the Group, and is responsible for overseeing the management of the Group's business with the assistance of the Group's senior management team.

BOARD COMMITTEES

The Board has established the Audit, Remuneration and Nomination Committees with term of reference to deal with certain corporate governance aspects of the Group. The term of reference of these Committees are published on the Company's website – www.modernmedia.com.cn and the Stock Exchange website. From time to time, the Board also establishes other board committees to deal with specific aspects of its business. Each Committee is appointed with written terms of reference and each member of the Committee has a formal letter of appointment setting out key terms and conditions relating to his appointment. Each Committee meets as frequently as required by business developments and the operation of the Group. Committee members are provided with adequate and timely information before each meeting or discussion. All Committee members are asked to review and comment on the minutes of their meetings within a reasonable time after the meetings. The procedures and arrangements relating to the meetings of the Board apply to meetings of the Board Committees wherever appropriate.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") in 2009 with written terms of reference. The Audit Committee currently comprises four Independent Non-executive Directors, namely, Mr. Au-Yeung Kwong Wah (chairman of the Audit Committee), Mr. Wang Shi , Mr. Jiang Nanchun and Mr. Mao Xiaofeng.

The Audit Committee members have professional qualifications and experience in financial matters that enable the Committee to exercise its powers effectively and provide the Board with independent views and recommendations in relation to financial matters.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of the Group. The terms of reference of the Audit Committee are aligned with the recommendations as set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

(a) To consider the appointment of the external auditors and any question of resignation or dismissal;

(b) To discuss with the external auditors before the audit commences, the nature and scope of the audit;

(c) To review the half-year and annual financials statements before submission to the board, focusing particularly on:

   (i) Any changes in the accounting policies and practices adopted by the group;

   (ii) Major accounting estimates and judgmental areas;

   (iii) Significant adjustments following the audit;

   (iv) The going concern assumption;

   (v) Compliance with accounting standards; and

   (vi) Compliance with the requirements of the Stock Exchange and related legal requirements

(d) To discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary); and

(e) To review the audit program of the internal audit function (if applicable)

The Audit Committee holds two regular meetings annually and also meets at such other times as are necessary. Any Audit Committee member may convene a meeting of the Committee. The external auditor may also request the Committee Chairman to convene a meeting of the Audit Committee. The Audit Committee may invite the external auditor and/or members of Management to attend any of the meetings. Special meetings may be called at the discretion of the Committee Chairman or at the request of Management to review significant internal control or financial issues. The Committee Chairman reports to the Board at least twice a year on the Committee's activities and highlights any significant issues. The number of meetings of the Audit Committee held and attended by each of the Audit Committee members during the year were:

	Meetings attended	**Meetings held during 2012**
Mr. Au-Yeung Kwong Wah	2	2
Mr. Wang Shi	2	2
Mr. Jiang Nanchun	1	2
Mr. Mao Xiaofeng	1	2

The following is a summary of the work performed by the Audit Committee during the year:

(a) Approval of the remuneration and terms of engagement of the external auditors;

(b) Review of the external auditors' independence and objectivity;

(c) Discuss with the external auditors regarding the nature and scope of the 2012 audit;

(d) Review of the half –year and annual financial statements of the Group before the submission to the Board for the approval;

(e) Review of the Group's financial reporting and internal controls and risk management processes; and

(f) Meeting with the external auditors without the presence of the Board members.

The Board has not taken any view that is different from that of the Audit Committee nor rejected any recommendation presented by the Audit Committee in 2012.

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year ended 31 December 2012.

REMUNERATION COMMITTEE

The Company has established a remuneration committee ("Remuneration Committee") in 2009 with written terms of reference. The Remuneration Committee currently comprises three Independent Non-executive Directors, namely Mr. Mao Xiaofeng (chairman of the Remuneration Committee) and Mr. Au-Yeung Kwong Wah and Mr. Jiang Nanchun and one executive Director, namely Mr. Wong Shing Fat. The primary duties of the Remuneration Committee are to make recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all Directors and senior management of the Company by making reference to market rates, their duties and responsibilities within the Group and their experience and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive Directors and senior management of the Company.

The duties of the Remuneration Committee, as set out in its terms of reference, adhere to the relevant CG Code. The Committee usually meets once a year and at such other time if necessary. Any Committee member may convene a meeting of the Remuneration Committee. The number of meetings of the Remuneration Committee held and attended by each of the Remuneration Committee members during the year was:

	Meetings attended	Meetings held during 2012
Mr. Mao Xiaofeng	1	1
Mr. Au-Yeung Kwong Wah	1	1
Mr. Jiang Nanchun	0	1
Mr. Wong Shing Fat	1	1

During the year ended 31 December 2012, the Remuneration Committee has performed the following works:

* reviewed and discussed the remuneration policy of the Group and the remuneration packages of directors of the Company;
* determined the remuneration of the executive Directors and senior management of the Company; and
* reviewed and discussed matters of the share award scheme of the Company.

Details of the remuneration of each Director and the remuneration of the members of the senior management by band for the year ended 31 December 2012 are set out in notes 10 and 11(b) to the financial statements.

NOMINATION COMMITTEE

The Company has established a nomination committee ("Nomination Committee") in 2012 with written terms of reference. The Nomination Committee currently comprises four Independent Non-executive Directors, namely Mr. Wang Shi (chairman of the Nomination Committee), Mr. Au-Yeung Kwong Wah, Mr. Jiang Nanchun and Mr. Mao Xiaofeng. The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board annually, determining nomination policies and procedures and making recommendation on any proposed changes to the Board and the appointment or re-appointment of directors having regard to the balance of skills and experience appropriate to the Group's business.

The duties of the Nomination Committee, as set out in its terms of reference, adhere to the relevant CG Code. The Committee usually meets once a year and at such other time as is necessary. Any Committee member may convene a meeting of the Nomination Committee.

In September 2012, the Stock Exchange had issued a consultation paper on diversity of board of directors and such documents had been circulated to members of nomination committee.

No Nomination Committee meeting was held during the year ended 31 December 2012, as it was duly constituted in February 2012.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board met once to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

INTERNAL CONTROLS

The Group has established internal controls in all material aspects of its business including financial, operational, compliance and risk management functions. These internal controls are intended to safeguard the shareholders' investments and the Group's assets. To the extent relevant, the Group's internal control framework uses aspects from the internal control and risk management framework proposed by the Hong Kong Institute of Certified Public Accountants.

The responsibilities for maintaining the Group's internal controls are divided between the Board and management. The Board is responsible for setting and reviewing internal control policies to monitor the Group's internal control systems. The Board delegates the implementation of these policies to management. Management is responsible for identifying and evaluating the risks faced by the Group and for designing, operating and monitoring an effective internal control system which implements the policies adopted by the Board. The Company has set up its own internal audit department to perform an internal audit function in 2010. Audit plans, risk assessments and internal audit reports are presented to and reviewed by the Audit Committee and the Board of Directors. The Board acknowledges that it is responsible for the Group's systems of internal control and for reviewing its effectiveness. Preliminary reviews of the Group's financial controls, internal control and risk management systems prior to formal reviews by the Board have been delegated to the Audit Committee in accordance with its terms of reference. The Audit Committee reviews the Group's financial controls, internal control and risk management systems at its regular Audit Committee meetings. The Company Secretary closely monitored the legislative progress on the statutory codification of certain requirements to disclose price sensitive information as formulated in the Securities and Futures (Amendment) Bill 2011, to ensure application with obligations under applicable rules, regulations and laws. It should be noted, however, that while a sound and well-designed system of internal control helps to provide reasonable safeguards to assist the Group in achieving its business objectives, the system itself cannot provide protection with certainty against the Group failing to meet its business objectives or against all material errors, losses, fraud or breaches of laws or regulations. For this reason, the Board's review of the internal controls should not be treated as an absolute assurance that one of the risks mentioned above would not materialize. The Board reviewed the effectiveness of the Group's material controls, including financial, operational and compliance controls and risk management functions as well as the adequacy of resources, qualifications and experience of staff of its accounting and financial reporting function and their training programs and budget during the year and considered the Group's system of internal controls to be satisfactory.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2012.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITOR

KPMG was first appointed as the auditors of the Group in 2009. During 2012, KPMG provided audit and non-audit services to the Group and their respective remunerations paid are as follows:

	2012 HK$'000	2011 HK$'000
Audit services	2,145	1,900
Other non-audit services	400	547
Total	2,545	2,447

KPMG will retire and offer themselves for re-appointment at the annual general meeting of the Company to be held in 15 May 2013.

A statement by KPMG about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report section of this Annual Report on page 60.

COMPANY SECRETARY

The company secretary of the Company, Mr. Mok Chun Ho, Neil, who is also an executive Director, is responsible for supporting the Board, ensuring good information flow within the Board and Board policy and procedures are followed, advising the Board on governance matters, facilitating induction and, monitoring the training and continuous professional development of Directors. He has attained no less than 15 hours of relevant professional training during the year. His biography is set out in page 46 of this report.

INVESTOR RELATIONS & SHAREHOLDERS' RIGHTS

All of the Company's shares are ordinary shares carrying equal voting rights. As at the date of this Annual Report, sufficient shares of the Company were on public float as required by the Listing Rules. The Board and management recognize their responsibility to act in the best interests of the Company and its shareholders as a whole. Investor relations play an integral part in corporate governance. The Group keeps shareholders informed of its performance, operations and significant business developments by adopting a transparent and timely corporate disclosure policy which complies with the Listing Rules and provides all shareholders equal access to such information. We report on financial and operating performance to shareholders twice each year through annual and interim reports. We give shareholders the opportunity to raise concerns or propose recommendations to the Board at the Company's annual general meetings. A representative of the Company's external auditor is requested to attend the annual general meetings to answer questions about the external audit and the audit report. Shareholders may visit our website: www.modernmedia.com.cn for up-to-date financial and other information about the Group and its activities.

The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. Shareholders have specific rights to convene extraordinary general meetings under the Company's Articles and Association.

1. Procedures for shareholders to convene an extraordinary general meeting

1.1 The following procedures for shareholders (the "Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting (the "EGM") of the Company are prepared in accordance with Article 64 of the articles of association of the Company:

(1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice (the "Requisition"), to require an EGM to be called by the Directors for the transaction of any business specified therein.

(2) Such Requisition shall be made in writing to the Board or the company secretary of the Company via email at the email address of the Company at hk@modernmedia.com.hk.

(3) The EGM shall be held within two months after the deposit of such Requisition.

(4) If the Directors fail to proceed to convene such meeting within twenty-one (21) days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

2. Procedures for raising enquiries

To ensure effective communication between the Board and the Shareholders, the Company has adopted a shareholders' communication policy on 29 February 2012.

2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at hk@modernmedia.com.hk, fax: (852) 2891 9719, or mail to Suite 1101-03, 11/F, 1063 King's Road, Quarry Bay, Hong Kong. Shareholders may call the Company at (852) 2250 9188 for any assistance.

3. Procedures and contact details for putting forward proposals at shareholders' meetings

3.1 To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information via email at the email address of the Company at hk@modernmedia.com.hk.

3.2 The identity of the Shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a Shareholder, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

3.3 The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days in writing if the Proposal requires approval by way of an ordinary resolution in an annual general meeting or a special resolution of the Company;

(2) Notice of not less than 14 clear days in writing if the Proposal requires approval in meeting other than an annual general meeting or approval by way of a special resolution of the Company.

Up to the date of this Annual Report, no shareholder has requested the Company to convene an extraordinary general meeting.

The Company's next annual general meeting will be held on 15 May 2013 at Boardroom 6, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association ("Articles") of the Company were amended pursuant to a special resolution passed on 28 May 2012. The latest Articles are available on the HKEx's and Company's websites.

Conclusion

The Company strongly believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest and the management tries to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

Biographical Details of Directors & Senior Management

DIRECTORS

Mr. SHAO Zhong (邵忠), aged 52, the founder of our Group. Mr. Shao was initially appointed as a Director in March 2007, and was subsequently designated as chairman of the Board and executive Director in July 2009. Mr. Shao is responsible for the overall corporate strategies, policy-formulating and instilling corporate philosophy of our Group. Prior to founding our Group, Mr. Shao was formerly a PRC government official before 1989. Then, he also undertook senior positions in other publishing and media enterprises including a listed printing company in Hong Kong until 1999. Mr. Shao holds an EMBA degree from Tsinghua University of Beijing. His in-depth experience in the media and publication industries in the PRC earned him the nomination as one of Top 10 Media Leading Icon at China Media Forum in 2010.

Mr. WONG Shing Fat (黃承發), aged 54, the chief executive officer of our Group responsible for the corporate and business planning and development a well as the overall management and operation of our Group. Mr. Wong was appointed as the executive Director of our Group in July 2009. He joined our Group in January 2003 as a chief consultant and also assumed the role as the chief operation officer and was subsequently promoted as the chief executive officer of our Group in September 2006. Prior to joining our Group, Mr. Wong undertook senior positions in several international reputable advertising companies and was responsible for the media planning, overall operational management and business development in the greater China region. Mr. Wong has over 28 years of experience in media operation and management of the advertising and media industries. Mr. Wong was granted the "SALUTE" Media Award by the Association of Accredited Advertising Agencies of Hong Kong in 1996 in recognition of his professional and significant contribution to the advertising industry in Hong Kong.

Mr. LI Jian (厲劍), aged 44, the chief operation officer of our Group responsible for the formulation and execution of the advertising sales strategies as well as the publication management of our Group. Mr. Li was appointed as an executive Director of our Group in July 2009. He joined our Group in May 1999 and took up various senior positions in Shanghai and Beijing offices and he was subsequently promoted to be the chief operation officer of our Group in July 2006. Mr. Li obtained his MBA degree from Murdoch University in Australia in March 2000 and his bachelor's degree in Applied Mathematics from the Faculty of Applied Mathematics of Lanzhou University in China in June 1992. He has over 13 years of experience in the marketing industry.

Mr. MOK Chun Ho, Neil (莫峻皓), aged 47, was appointed as an executive Director of our Group in July 2009. Mr. Mok joined our Group in March 2003 and is responsible for the general financial planning and management of our Group. He obtained his MBA degree from Charles Sturt University in Australia in November 2002 and the Diploma in Accountancy from the Lingnan College of Hong Kong (currently known as Lingnan University) in November 1989. Mr. Mok was admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants and the associate member of the Taxation Institute of Hong Kong and The Hong Kong Institute of Chartered Secretaries in February 2010, April 1999 and May 2011, respectively. Mr. Mok has over 20 years of experience in finance and accounting management through his previous financial positions with several listed and private companies in Hong Kong.

Mr. CUI Jianfeng (崔劍鋒), aged 40, was appointed as the chief investment officer and executive Director of our Group in July 2009. Mr. Cui joined our Group in May 2008 and is responsible for the investment strategies and business management of our Group. Prior to joining our Group, he took up various senior positions in two reputable multinational companies. Mr. Cui's past working experience in multinational companies helps our Group in developing constructive investment and business finance systems. He obtained an MBA degree from the Deakin University in Australia in September 2003 and another MBA degree from the University of Western Ontario in Canada in October 2004 respectively and also the bachelor's degree of commerce (major in accountancy) from the University of Wollongong in Australia in October 1995. Mr. Cui is a member of CPA Australia. Mr. Cui has over 13 years of experience in finance and business management.

Biographical Details of Directors & Senior Management *(continued)*

NON-EXECUTIVE DIRECTOR

Mr. CHENG Chi Kong (鄭志剛), aged 33, was appointed as the non-executive Director in April 2013. Mr. Cheng obtained a Bachelor of Arts degree (cum laude) from Harvard University. He worked in a major international bank and has substantial experience in corporate finance. Mr. Cheng serves as executive director of a number of companies which are listed on the Main Board of the Stock Exchange, including New World Development Company Limited, New World China Land Limited, New World Department Store China Limited, Chow Tai Fook Jewellery Group Limited etc.

Mr. Cheng is also the vice-chairman of the All-China Youth Federation, the vice chairman of the Youth Federation of the Central State-owned Enterprises, a member of the Tianjin Municipal Committee of The Chinese People's Political Consultative Conference, a consultant of the Beijing Municipal Committee of The Chinese People's Political Consultative Conference, chairman of China Young Leaders Foundation, chairman of New World Group Charity Foundation and the honorary chairman of Fundraising Committee of the Wu Zhi Qiao (Bridge to China) Charitable Foundation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Shi (王石), aged 61, was appointed as the independent non-executive Director in August 2009. Mr. Wang has almost 20 years of experience in real estate development in the PRC. Mr. Wang was the founder of China Vanke Co., Ltd. which was listed on the Shenzhen Stock Exchange starting from 1984. He acted as its general manager from 1988 to 1999, and he also acted as its chairman from1988 till now. Mr. Wang obtained his bachelor's degree in water supply studies from Lanzhou Jiaotong University in China in September 1977.

Mr. JIANG Nanchun (江南春), aged 39, was appointed as the independent non-executive Director on in August 2009. Mr. Jiang has over 15 years of experience in the media and advertising industries in the PRC. He held the office of chief executive officer of Everease Advertising Corporation, which is one of the top 50 advertising agencies in China, from 1994 to 2003. In May 2003, Mr. Jiang became the general manager of Focus Media Advertisement. He also founded Focus Media Holding Limited ("Focus Media") (a company which is listed on the National Association of Securities Dealers Automated Quotations (NASDAQ)) and served as its chairman of the board of directors and the chief executive officer since May 2003. Mr. Jiang obtained his bachelor's degree in Chinese language and literature from East China Normal University in China in 1995.

Mr. AU-YEUNG Kwong Wah (歐陽廣華), aged 48, was appointed as the independent non-executive Director in August 2009. Mr. Au-Yeung obtained a bachelor's degree in commerce from The Bond University in Australia in September 1996, a master's degree in accountancy from The Chinese University of Hong Kong in December 2000, a postgraduate diploma in corporate administration from The Hong Kong Polytechnic University in December 2005 and an EMBA degree from The Chinese University of Hong Kong in December 2008. Mr. Au-Yeung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He has over 11 years of experience in auditing and financial control through his prior employments with accounting firms and listed companies in Hong Kong. Mr. Au-Yeung was an executive director of C&O Pharmaceutical Technology Holdings Limited, the shares of which are listed on the main board of the Singapore Stock Exchange, from August 2005 to March 2006, after which he was re-designated as an independent non-executive director of this company from April 2006 to January 2007.

Mr. MAO Xiaofeng (毛曉峰), aged 40, was appointed as the independent non-executive Director in February 2012. Mr. Mao obtained a master's degree in industrial and foreign trade from Hunan University in 1995, a doctorate degree in management from Hunan University, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University in the United States of America in 2000. Currently, he is a vice president of China Minsheng Banking Corp., Ltd. ("Minsheng Bank"), the shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange. Mr. Mao has also been the secretary to the board of directors of Minsheng Bank and one of the joint company secretaries of Minsheng Bank since June 2003 and March 2004 respectively.

Biographical Details of Directors & Senior Management *(continued)*

SENIOR MANAGEMENT

Mr. Alain DEROCHE, aged 51, the vice president and the publishing controller of two Group's international titles, namely "Numero" and "Intersection". Mr. Deroche joined our Group in June 2008 and is responsible for the management of our Group's international copyright business and the planning and content innovation for the Magazines. Prior to joining our Group, Mr. Deroche served as the general manager in charge of publishing in Asia for two and a half years and the publishing controller for ELLE's international edition in the International Department of a French company called Hachette Filipacchi Medias Group for five years. Mr. Deroche obtained his doctoral degree in international enterprise management from Universitè Paris-Dauphine (English translation: Paris Dauphine University) in France in October 1986. He has over 28 years of experience in international media management of the international media industry.

Ms. YU Ping (虞萍), aged 43, the publishing controller of "LOHAS". Ms. Yu joined our Group in April 2007 and is responsible for the overall operation and management, as well as the overall brand marketing strategies of the two magazines of our Group. Prior to joining our Group, she had worked as the regional market controller in China for Luweimingxuan Perfume & Cosmetic Co., Ltd. for one and a half years and SMH International Trading (Shanghai) Co., Ltd. for about one year respectively. Ms. Yu obtained her MBA degree from China Europe International Business School (CEIBS) in September 2005. She has over 15 years of experience in marketing and is particularly familiar with the customers and business in our key segments, including luxury goods and cosmetic products.

Ms. Amy YOUNG Ying (楊瑩), aged 38, was graduated in Shanghai Foreign Trade College, majored in Foreign Trade Economy and with more than 15 years' working experience in the Advertising, Marketing and Public Relationship. Ms. Young worked for Swatch Group and HK Wharf Holdings after graduation. In 2000, Ms. Young joined the Group as Marketing Director of its Shanghai Office and further on promoted as the Deputy General Manager. To broaden her publishing experience, Ms. Young joined Vogue Magazine, China as Associate Publisher and Advertising Director from May 2005 to July 2009. In August, 2009, Ms. Young rejoined the Group as Shanghai Office General Manager to manage the sales and marketing and assisting the business development of the Group.

Ms. ZHONG Yuanhong (鍾遠紅), aged 41, the administration and production controller of our Group. Ms. Zhong, being one of the most senior employees of our Group, joined our Group in April 1998 and is responsible for the procurement, production and administrative management of our Group. Prior to joining our Group, she was an assistant to director in Ramada Pearl Hotel in Guangzhou for 3 years. Ms. Zhong completed her secondary education in Guangzhou No. 62 middle school in June 1989. She has over 17 years of experience in administrative management, with a particular expertise in printing and the post production management of publications, in the media industry.

Mr. CHING Siu Wai (程少偉), aged 47, joined our Group in July 2003 as the creative director of City Magazine and is now the deputy general manager in Hong Kong, creative director of our Group and also the publishing director of City Magazine in Hong Kong. Mr. Ching is responsible for the management of the creative design business of our Group and the operation and management of City Magazine. Mr. Ching obtained a diploma in design from HK Chingying Institute of Visual Arts. He has over 21 years of solid experience in magazine design and the media industry. Mr. Ching was granted the Best Magazine Design Award by the Society of Publishers in Asia in 2005 and 2007 respectively.

Mr. LIM Timothy Edward (林添靈), aged 38, joined our Group in February 2006 and is the fashion director of our Group responsible for the planning and development of the fashion aspects of the Magazines. Prior to joining our Group, Mr. Lim was the fashion editor of The South China Morning Post in Hong Kong for 6 years. Further, Mr. Lim has contributed to a number of famous international fashion magazines including Elle, Marie Claire, Tank and Bazaar in the past. Mr. Lim obtained his bachelor's degree from McGill University in Canada in 1997. He has over 15 years of experience in international fashion news reporting and styling for advertising and professional fashion media.

Ms. HUANG Wenhua (黃文樺), aged 42, joined our Group in June 2002 and is the regional general manager of Guangzhou, responsible for the operation and management of the advertising business in Southern China. Prior to joining our Group, Ms. Huang was the head of the customer relations department in Central Hotel in Guangzhou for 2 years. She completed her secondary education in Guangzhou. Ms. Huang has over 13 years of experience in the media industry.

Directors' Report

The Directors are pleased to submit their report together with the audited financial statements of Modern Media Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The particulars and activities of the Company's subsidiaries are set out in note 36 to the consolidated financial statements. An analysis of the Group's performance for the year by business segments is set out in note 12 to the consolidated financial statements.

FINANCIAL RESULTS AND DISTRIBUTABLE RESERVES

The profit of the Group for the year and the state of affairs of the Company and the Group as at 31 December 2012 are set out in the consolidated financial statements on pages 61 to 135.

Movements in the reserves of the Company and amounts available for distribution to shareholders are disclosed in note 28(a) to the financial statements. Movements in the reserves of the Group are disclosed in the consolidated statement of changes in equity on page 65.

DIVIDEND

The Directors have declared a final dividend of HK5.5 cents (2011: HK3.5 cents) per share amounting to HK$24.1 million, which represents approximately 30% of the net profit of 2012, payable to shareholders whose names appear on the Register of Members of the Company on 22 May 2013 and payable on 14 June 2013.

SHARE CAPITAL

Details of the movements in the authorized and issued share capital of the Company are set out in note 27 to the financial statements.

FIXED ASSETS

Movements in the fixed assets of the Group are set out in note 13 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 52% and 36% of the Group's total purchases for the year ended 31 December 2012 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 35% and 13% of the Group's total sales for the year ended 31 December 2012 respectively.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2012 had any interest in any of the five largest suppliers and customers disclosed above.

FIVE YEAR FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 136.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws in Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors
Mr. Shao Zhong *(Chairman)*
Mr. Wong Shing Fat
Mr. Li Jian
Mr. Mok Chun Ho, Neil
Mr. Cui Jianfeng

Independent non-executive Directors
Mr. Wang Shi
Mr. Jiang Nanchun
Mr. Au-Yeung Kwong Wah
Mr. Mao Xiaofeng

Mr. Cheng Chi Kong was appointed as non-executive Director on 1 April 2013.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the Directors and chief executive of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as otherwise notified to the Company:

Long Positions in the Company

Name of Director	Company/ Name of Group member	Capacity/Nature of interest	Number of ordinary shares of the Company held	Approximate % of issued share capital
Shao Zhong ("Mr. Shao")	The Company	Beneficial owner	268,068,000	61.22%
Wong Shing Fat	The Company	Beneficial owner	2,066,000	0.47%
Li Jian	The Company	Beneficial owner	3,066,000	0.70%
Mok Chun Ho, Neil	The Company	Beneficial owner	2,066,000	0.47%
Cui Jianfeng	The Company	Beneficial owner	2,066,000	0.47%

Long Positions in the associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Approximate % of equity interest
Mr. Shao	北京代雅格廣告有限公司 (Beijing Modern Yage Advertising Co., Ltd. (for identification purposes only), "Beijing Yage")	Interest of controlled corporations *(Note 2)*	100%
Mr. Shao	北京雅格致美廣告傳播有限公司 (Beijing Yage Zhimei Advertising Media Co., Ltd. (for identification purposes only), "Beijing Yage Zhimei")	Interest of controlled corporations *(Note 3)*	100%
Mr. Shao	廣州現代資訊傳播有限公司 (Guangzhou Modern Information Media Co., Ltd. (for identification purposes only), "Guangzhou Modern Information")	Beneficial owner	100%
Mr. Shao	廣州現代圖書有限公司 (Guangzhou Modern Books Co., Ltd. (for identification purposes only), "Guangzhou Modern Books")	Beneficial owner	90%
Mr. Shao	Guangzhou Modern Books	Interest of controlled corporations *(Note 4)*	10%
Mr. Shao	廣州雅格廣告有限公司 (Guangzhou Yage Advertising Co., Ltd. (for identification purposes only), "Guangzhou Yage")	Interest of controlled corporations *(Note 5)*	100%
Mr. Shao	上海格致廣告有限公司 (Shanghai Gezhi Advertising Co., Ltd. (for identification purposes only), "Shanghai Gezhi")	Interest of controlled corporations *(Note 6)*	100%
Mr. Shao	上海雅格廣告有限公司 (Shanghai Yage Advertising Co., Ltd. (for identification purposes only), "Shanghai Yage")	Interest of controlled corporations *(Note 7)*	100%
Mr. Shao	深圳雅格致美資訊傳播有限公司 (Shenzhen Yage Zhimei Information Media Co., Ltd. (for identification purposes only), "Shenzhen Yage Zhimei')	Interest of controlled corporations *(Note 8)*	100%
Mr. Shao	珠海現代致美文化傳播有限公司 (Zhuhai Modern Zhimei Culture Media Co., Ltd. (for identification purposes only), "Zhuhai Modern Zhimei")	Interest of controlled corporations *(Note 9)*	100%
Mr. Shao	珠海銀弧廣告有限公司 (Zhuhai Yinhu Advertising Co., Ltd. (for identification purposes only), "Zhuhai Yinhu")	Beneficial owner	90%
Mr. Shao	Zhuhai Yinhu	Interest of controlled corporations *(Note 10)*	10%
Mr. Shao	廣州摩登視頻傳媒有限公司 (Guangzhou Modern Video Media Co., Ltd. (for identification purposes only), "Guangzhou Modern Video")	Interest of controlled corporations *(Note 11)*	100%
Mr. Shao	廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited (for identification purpose only), "Guangzhou Xiandai")	Interest of controlled corporations *(Note 12)*	100%
Mr. Shao	上海森音信息技術有限公司 (Shanghai Senyin Information Technology Co., Ltd. (for identification purpose only), "Shanghai Senyin")	Interest of controlled corporations *(Note 13)*	100%

Notes:

1. The letter "L" denotes the Director's long position in the Shares.
2. Beijing Yage is held as to 80% by Guangzhou Modern Information and as to 20% by Guangzhou Modern Books. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Beijing Yage held by Guangzhou Modern Information and Guangzhou Modern Books, both of which are Mr. Shao's controlled corporations.
3. Beijing Yage Zhimei is held as to 100% by Zhuhai Modern Zhimei, the equity interest is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Beijing Yage Zhimei held by Zhuhai Modern Zhimei which is Mr. Shao's indirect controlled corporation.
4. Guangzhou Modern Books is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Guangzhou Modern Books held by Guangzhou Modern Information, which is Mr. Shao's controlled corporation.
5. Guangzhou Yage is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Guangzhou Yage held by Zhuhai Modern Zhimei, which is Mr. Shao's indirectly controlled corporation.
6. Shanghai Gezhi is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Gezhi held by Zhuhai Modern Zhimei, which is Mr. Shao's indirectly controlled corporation.
7. Shanghai Yage is held as to 90% by Guangzhou Modern Information and as to 10% by Guangzhou Modern Books. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Yage held by Guangzhou Modern Information and Guangzhou Modern Books, both of which are Mr. Shao's controlled corporation.
8. Shenzhen Yage Zhimei is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Shenzhen Yage Zhimei held by Zhuhai Modern Zhimei, which is Mr. Shao's indirectly controlled corporation.
9. Zhuhai Modern Zhimei is held as to 100% by Zhuhai Yinhu, the equity interest of which is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Zhuhai Modern Zhimei held by Guangzhou Modern Information, which is Mr. Shao's controlled corporation.
10. Zhuhai Yinhu is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Zhuhai Yinhu held by Guangzhou Modern Information which is Mr. Shao's controlled corporation.
11. Guangzhou Modern Video is held as to 90% by Guangzhou Modern Information and as to 10% by Guangzhou Modern Books. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Guangzhou Modern Video held by Guangzhou Modern Information and Guangzhou Modern Books of which are Mr. Shao's controlled corporation.
12. Guangzhou Xiandai is held as to 95% by Mr. Shao and as to 5% by Shanghai Senyin. Mr. Shao is accordingly deemed by the SFO to be interested in the 5% equity interest in Guangzhou Xiandai held by Shanghai Senyin which is Mr. Shao's controlled corporation.
13. Shanghai Senyin is held as to 95% by Mr. Shao and 5% by Ms. Zhong Yuanhong, an employee of the Group, on trust for Mr. Shao.

SUBSTANTIAL SHAREHOLDERS AND PERSONS WHO HAVE AN INTEREST OR SHORT POSITIONS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31 December 2012, the Company had been notified of the following shareholder other than Directors having interests in shares representing 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of ordinary shares held	Percentage of issued ordinary shares as at 31 December 2012
Zhou Shao-min *(Note 1)*	Interest of spouse	268,068,000	61.22%
FIL Limited	Beneficial owner	30,656,000	7.00%
Cheah Capital Management Limited *(Note 2)*	Interest of corporation controlled by the substantial shareholder	24,704,000 *(Note 3)*	5.64%
Cheah Cheng Hye *(Note 2)*	Founder of a discretionary trust	24,704,000 *(Note 3)*	5.64%
Cheah Company Limited *(Note 4)*	Interest of corporation controlled by the substantial shareholder	24,704,000 *(Note 3)*	5.64%
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	24,704,000 *(Note 3)*	5.64%
To Hau Yin *(Note 4)*	Interest of the substantial shareholder's child under 18 or above	24,704,000 *(Note 3)*	5.64%
Value Partners Group Limited *(Note 2)*	Interest of corporation controlled by the substantial shareholder	24,704,000 *(Note 5)*	5.64%
Value Partners Hong Kong Limited *(Note 2)*	Interest of corporation controlled by the substantial shareholder	24,704,000 *(Note 5)*	5.64%
Value Partners Limited *(Note 2)*	Investment manager	24,704,000 *(Note 3)*	5.64%
Harmony Master Fund	Beneficial owner	24,228,000	5.53%
United Achievement Limited *(Note 6)*	Beneficial owner	25,020,000	5.71%
Warburg Pincus & Co. *(Note 6)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus Partners LLC *(Note 6)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus Private Equity X, L.P. *(Note 6)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus X, L.P. *(Note 6)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus X, LLC *(Note 6)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%

Notes:

1. Zhou Shao-min is the spouse of Mr. Shao Zhong, under the SFO, she is deemed to be interested in the Shares held by Mr .Shao.

2. According to the disclosure of interest notice ("DI Notice") filed by Value Partners Limited on 23 May 2011, Cheah Cheng Hye, Value Partners Group Limited, Cheah Capital Management Limited and Cheah Company Limited are Value Partners Limited's director, immediate holding company, intermediate holding company and intermediate holding company. According to the DI Notice filed by Value Partners Group Limited on 8 December 2011, Value Partners Limited is wholly owned by Value Partners Hong Kong Limited, which is ultimately wholly owned by Value Partners Group Limited. For the purpose of SFO, each of Value Partners Group Limited, Value Partners Hong Kong Limited is deemed to be interested in the Shares beneficially owned by Value Partners Limited.

3. The figures shown in the above table are based on confirmations recently received from Cheah Capital Management Limited; Cheah Cheng Hye; Cheah Company Limited; Hang Seng Bank Trustee International Limited; To Hau Yin; and Value Partners Limited respectively (and according to the relevant DI Notices in connection with the Company available on www.hkex.com.hk as at 31 December 2012, the number of Shares as reported in such notice to be held by each of the relevant shareholder was 25,480,000).

4. The relationship between To Hau Yin and Cheah Cheng Hye is parent and child under 18 years of age.

5. The figures shown in the above table are based on confirmations recently received from Value Partners Group Limited and Value Partners Hong Kong Limited (and according to the relevant DI Notices in connection with the Company available on www.hkex.com.hk as at 31 December 2012, the number of Shares as reported in such notice to be held by each of the relevant shareholders was 25,672,000).

6. According to the DI Notice of Warburg Pincus & Co. dated 23 May 2011, United Achievement Limited is 96.9% controlled by Warburg Pincus Private Equity X, L.P., which is ultimately wholly controlled by Warburg Pincus & Co. through Warburg Pincus Partners LLC, Warburg Pincus X, LLC and Warburg Pincus X, L.P., all being directly and indirectly wholly controlled by Warburg Pincus & Co.. For the purpose of the SFO, each o f Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus X, L.P. and Warburg Pincus Private Equity X, L.P. is deemed to be interested in the Shares beneficially owned by United Achievement Limited.

SHARE OPTION SCHEME

A share option scheme ("Scheme") was conditionally adopted by a resolution in writing passed by the then sole shareholder of the Company on 24 August 2009. Under the Scheme, the Directors may grant options to subscribe for shares of the Company to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries.

No share option was granted, exercised, cancelled or had lapsed under the Scheme during the year. No share option was outstanding under the Scheme as at 31 December 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors (including their spouses and children below 18 years of age) had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company during the year ended 31 December 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Investment in online search services held by Mr. Shao Zhong

As at 31 December 2012, Mr. Shao Zhong ("Mr. Shao"), an executive Director and the controlling Shareholder, held about 10% equity interest in a company ("Online Search Company") incorporated in Beijing, the PRC. The Online Search Company has been principally engaged in the business of operating an internet platform of open community in the form of a network of community members asking and answering questions with high-quality contents, generated by users and shared across multiple knowledge domains. He is not in control of such company. Mr. Shao made investments in the said business before the Group's commencement of the Mobile Digital Media Business.

As the Group's mobile digital media business currently focuses on online advertising and publication of multiple digital media products, the Directors believe that the business of the Online Search Company currently does not compete with the Group's business. If there are any changes in the future, the Company would discuss with (if necessary) Mr. Shao on his ceasing to hold or disposing of such investment.

None of the director of the Company has any interest in a business which competes or is likely to compete with the business of the Group during the year.

The independent non-executive Directors have reviewed the compliance with and enforcement of the terms of the non-competition undertakings by Mr .Shao. Based on, among other matters, the annual confirmation from Mr. Shao to the Company on compliance with the terms of the above non-competition undertaking, the Directors (including the independent non-executive Directors) consider that the above non-competition undertakings were only compiled with and enforced during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No Director proposed to be re-elected at the forthcoming annual general meeting of the Company has an unexpired service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

CONNECTED TRANSACTIONS

Certain transactions entered into by us constituted non-exempt continuing connected transactions under the Listing Rules but they have been the subject of waiver granted to the Company by the Stock Exchange subject to compliance of certain conditions. Such series of contracts entered into by, among others, 現代傳播（珠海）科技有限公司(Modern Media (Zhuhai) Technology Co., Ltd. ("Zhuhai Technology")), Mr Shao Zhong and the PRC Operational Entities (as defined in the prospectus of the Company dated 28 August 2009) (the "Contractual Arrangements") serves the purpose of providing the Group with effective control over the PRC Operational Entities to which the Group does not have direct shareholding, and to effectively transfer the economic benefits and pass the risks associated therewith of the PRC Operational Entities to the Company. The Contractual Arrangements include:

(a) management and consultation services agreements dated 24 August 2009 and entered into between Zhuhai Technology and (i) Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei (collectively the "Publishing and Investment Holding Entities"); (ii) Shanghai Gezhi, Beijing Yage Zhimei, Shenzhen Yage Zhimei and Guangzhou Yage (collectively the "Sales Entities"); (iii) Shanghai Yage and Beijing Yage (collectively the "Production Entities"), pursuant to which the PRC Operational Entities have engaged Zhuhai Technology on an exclusive basis to provide consultation services in the management, sales and marketing, enterprise management and other supporting services in connection with the PRC Operational Entities' business. In return, each of the PRC Operational Entities agrees to pay to Zhuhai Technology fees on an annual basis in arrears. Fees payable to Zhuhai Technology by the PRC Operational Entities are equivalent to the total revenue less all the related costs, expenses and taxes of the respective PRC Operational Entities, as audited by such certified public accountants of the PRC. Such management and consultation services agreements became effective when it was executed on 24 August 2009 and would remain effective for a perpetual term;

(b) equity pledge agreements dated 24 August 2009 and entered into between Zhuhai Technology and (i) Mr. Shao; (ii) Mr. Shao and Guangzhou Modern Information; (iii) Zhuhai Yinhu; (iv) Zhuhai Modern Zhimei; (v) Guangzhou Modern Information and Guangzhou Modern Books, the payment of consultations services fees to Zhuhai Technology under the above management and consultation services agreements is secured in that Zhuhai Technology is entitled to exercise its rights to sell the pledged equity interests on occurrence of any non-payment of such fees. Furthermore, Zhuhai Technology is entitled to all dividends derived from the pledged equity interests in the PRC Operational Entities. The Equity Pledge Agreements become effective when it was executed on 24 August 2009;

(c) business operation agreements dated 24 August 2009 entered into between Zhuhai Technology and (i) Mr. Shao and the Publishing and Investment Holding Entities; (ii) Zhuhai Modern Zhimei and the Sales Entities; (iii) Guangzhou Modern Information, Guangzhou Modern Books and the Production Entities, under which no material business transaction can be entered into by the PRC Operational Entities without the prior written consent of Zhuhai Technology. Furthermore, the PRC Operational Entities shall appoint individuals as nominated by Zhuhai Technology to be their directors and key management as and when Zhuhai Technology sees fit. Zhuhai Technology or its nominees is entitled to exercise their rights as if they were the shareholder of the PRC Operational Entities. Any dividend and/or capital gain derived from the equity interests in the PRC Operational Entities shall also be paid to Zhuhai Technology. The business operation agreements became effective when it was executed on 24 August 2009 and will remain effective for a perpetual term;

(d) option agreements dated 24 August 2009 entered into between Modern Media (HK) and (i) Mr. Shao and the Publishing and Investment Holding Entities; (ii) Zhuhai Modern Zhimei and the Sales Entities; (iii) Guangzhou Modern Information, Guangzhou Modern Books and the Production Entities, pursuant to which Modern Media (HK) was granted options to acquire the entire equity interest in the PRC Operational Entities at nil consideration or the minimum amount as permitted by the applicable PRC laws. Such option agreements became effective when it was executed on 24 August 2009 and will expire on the date on which all the equity interests in the PRC Operational Entities are transferred to Modern Media (HK) and/or its nominees;

(e) proxy agreements dated 24 August 2009 entered into between Zhuhai Technology and (i) Mr. Shao and Guangzhou Modern Information; (ii) Mr. Shao and Zhuhai Modern Zhimei; (iii) Mr. Shao, Guangzhou Modern Information and Guangzhou Modern Books, which authorize the Group to exercise its rights in the PRC Operational Entities as if it were the ultimate beneficial owner of the PRC Operational Entities. Such proxy agreements become effective when it was executed on 24 August 2009 and will remain effective during the term of the business operation agreements set out above; and

(f) trademark transfer agreement dated 24 August 2009 entered into between Zhuhai Technology and Guangzhou Modern Information to grant an option to Zhuhai Technology to acquire certain trademarks in relation to the PRC Magazines and its business at a nominal consideration or such minimum amount required by the PRC law. The trademark transfer agreement became effective when it was executed on 24 August 2009 and will remain effective for a perpetual term.

The above Contractual Arrangements allow the Company to consolidate the financial results of the PRC Operational Entities into the Group's financial statements as if they were the Group's wholly-owned subsidiaries. The Directors consider that the Contractual Arrangements are fundamental to the Group's legal structure and business operations and are on normal commercial terms or terms more favourable to the Group and are fair and reasonable or to the advantage of the Group and are in the interests of the Shareholders as a whole.

The independent non-executive directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out from the date when the Contractual Arrangements became effective up to 31 December 2012 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operational Entities have been substantially retained by Zhuhai Technology; (ii) no dividend or other distribution has been made by the PRC Operational Entities to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the PRC Operational Entities during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

The following connected transaction was entered into by the Group during the year under review.

On 20 September 2011, the Group, through its wholly owned subsidiaries, entered into contractual agreements with Mr. Shao (a Director and substantial shareholder of the Company), the Target Companies (as defined below) and other relevant parties (the "2011 Contractual Agreements"). Pursuant to the arrangements contemplated under such 2011 Contractual Agreements, the Group would effectively obtain the control over the financial and operational policies and decisions of the Target Companies which the Directors consider that this acquisition is classified as a business combination under International Financial Reporting Standard 3, "Business Combinations". The consideration of this acquisition was RMB18,000,000 (approximately HK$21,600,000). The 2011 Contractual Agreements include:

(a) the equity pledge agreements dated 20 September 2011 and entered into between (among others) Mr. Shao, 雅致美資訊諮詢（深圳）有限公司(Yazhimei Information Consultation (Shenzhen) Co., Ltd. ("Yazhimei", for identification purposes only)), 上海森音信息技術有限公司(Shanghai Senyin Information Technology Co., Ltd. ("SH Senyin" for identification purposes only, which was beneficially wholly owned by Mr. Shao), for guaranteeing the payment of the service fees under the management and consultation services agreements (as defined in (d) below);

(b) the option agreements dated 20 September 2011 and entered into between (among others) Mr. Shao, SH Senyin, 廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited ("GZ Xiandai", for identification purposes only, which was beneficially owned as to 95% by Mr. Shao, GZ Xiandai together with SH Senyin are collectively referred to as "Target Companies")) and Modern Mobile Digital Media Company Limited ("MM Mobile Digital"), pursuant to which MM Mobile Digital has been granted options to acquire, directly or through one or more nominees, the entire enquity interest in the Target Companies at nil consideration or the minimum amount as permitted by the applicable PRC laws;

(c) business operation agreements dated 20 September 2011 and entered into between (among others) Yazhimei, GZ Xiandai, Mr. Shao and SH Senyin, pursuant to which the Target Companies have undertaken not to enter into any material business transaction without the prior written consent of Yazhimei and to appoint individuals as nominated by Yazhimei to be the directors and key management of the Target Companies;

(d) the management and consultation services agreements dated 20 September 2011 and entered into between (among others) Yazhimei, GZ Xiandai and SH Senyin, pursuant to which the Target Companies will engage Yazhimei on an exclusive basis to provide enterprise management consultation services and other services in connection with the business services of the Target Companies; and

(e) the proxy agreements dated 20 September 2011 entered into between (among others) Yazhimei, Mr. Shao and SH Senyin, pursuant to which Mr. Shao is authorized to exercise the shareholders' rights in each of the Target Companies including attending shareholders' meeting and exercising voting rights (as long as Mr. Shao remains as the chairman of Yazhimei).

The 2011 Contractual Agreements have been completed at 31 December 2012.

During the year, the Group has entered into certain related party transactions as disclosed in note 31 to the consolidated financial statements. Such transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Company disclosed in its prospectus dated 28 August 2009 and announcement dated 21 September 2011 that the Group entered into and will continue to carry out between members of the Group certain continuing connected transactions in respect of the Contractual Arrangements and the 2011 Contractual Agreements. (The "Continuing Connected Transactions").

Pursuant to Chapter 14A of the Listing Rules, transactions carried out under the Contractual Arrangements and 2011 Contractual Agreements have complied with the reporting and announcement requirements during the year. The Continuing Connected Transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that the Continuing Connected Transactions have been entered into in accordance with the relevant Contractual Arrangements and 2011 Contractual Agreements and that no dividend or other distribution has been made by the PRC Operational Entities and the Target Companies to the holders of their respective equity interests which are not otherwise subsequently assigned/transferred to our Group.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform procedures on the above Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has confirmed that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transaction have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group to the PRC Operational Entities (as defined in the Prospectus of the Company dated 28 August 2009 ("the "Prospectus")) and the Target Companies (as defined in the announcement of the Company dated 21 September 2011 (the "2011 Announcement")), nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the relevant terms of Contractual Arrangements and 2011 Contractual Agreements as set out in the Prospectus and the 2011 Announcement respectively.

c. nothing has come to the auditor's attention that causes the auditor to believe that dividends or other distributions have been made by the PRC Operational Entities and the Target Companies to the holders of their respective equity interests which are not otherwise subsequently assigned/transferred to the Group.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2012, the Group had around 1,057 employees (2011: 973). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employee benefits include provident fund, insurance and medical cover and the share award plan adopted by the Company which became effective on 7 December 2009.

The Directors' and Chairman's emoluments are determined by the Remuneration Committee, with reference to their duties, responsibilities and performance and the results of the Group and comparable market statistics, including the prevailing market rate for executives of similar position. Details of the Directors' remuneration and individuals with the highest emoluments in the Group are set out in notes 10 and 11 of the financial statements.

PENSION SCHEME

The employees of the Group in the PRC participate in various social security plans enacted in China, which cover pension, medical and other welfare benefits. The Group is required to make contributions to the plans calculated based on a percentage of the monthly compensation of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities in accordance with the applicable PRC rules and regulations. The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pension to the retired employees.

There was no forfeited contribution under the scheme available for deduction of future contribution to be made by the Group. The Group's contributions to retirement benefit schemes were charged to the consolidated income statement for the year ended 31 December 2012 were RMB34.7 million. Details of the contribution retirement schemes are set out in note 6 of the financial statements.

The Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the contributions described above.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws in Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Details of the Company's corporate governance practices are set out in the "Corporate Governance" section of this Annual Report on pages 36 to 45.

AUDIT COMMITTEE

The Company established an audit committee with terms of reference on 24 August 2009 in compliance with the CG Code set out in Appendix 14 of the Listing Rules. Audit Committee has four members comprising the four independent non-executive Directors, namely, Mr. Au-Yeung Kwong Wah, Mr. Wang Shi, Mr. Jiang Nanchun and Mr. Mao Xiaofeng.

During the year, the Audit Committee met from time to time to review the Company's draft annual report and accounts, interim report and provided advice and comments thereon to the Company's board of directors, meeting with external auditors to discuss audit matters of governance interest that arise from the annual audit of the Company's financial statements.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained throughout the year ended 31 December 2012, the amount of public float as required under the Listing Rules.

CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

AUDITORS

KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forth coming Annual General Meeting.

On behalf of the Board
Shao Zhong
Chairman

Hong Kong, 19 March 2013

Independent Auditor's Report

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MODERN MEDIA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Media Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 61 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

2012 HKD'000		Note	2012 RMB'000	2011 RMB'000
807,346	Turnover	4	655,313	586,186
(343,059)	Cost of sales		(278,457)	(251,686)
464,287	**Gross profit**		376,856	334,500
15,722	Other revenue	5(a)	12,762	2,122
(451)	Other net loss	5(b)	(366)	(103)
(168,311)	Selling and distribution expenses		(136,616)	(115,038)
(193,346)	Administrative and other operating expenses		(156,937)	(131,543)
117,901	**Profit from operations**		95,699	89,938
(3,509)	Finance costs	6(a)	(2,848)	(2,685)
329	Share of profit/(loss) of associates	18	267	(477)
(451)	Share of loss of a jointly controlled entity	19	(366)	(1,707)
114,270	**Profit before taxation**	6	92,752	85,069
(33,860)	Income tax	7(a)	(27,484)	(24,791)
80,410	**Profit for the year**		65,268	60,278
	Other comprehensive income for the year			
(61)	Share of other comprehensive income of an overseas associate	8	(50)	—
2,480	Exchange differences on translation of financial statements of overseas subsidiaries	8	2,013	(2,361)
82,829	**Total comprehensive income for the year**		67,231	57,917
80,410	**Profit attributable to equity shareholders**		65,268	60,278
82,829	**Total comprehensive income attributable to equity shareholders**		67,231	57,917
	Earnings per share (RMB)	9		
HK$0.19	– Basic and diluted		0.15	0.14

The notes on pages 68 to 135 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(b).

Consolidated Statement of Financial Position

At 31 December 2012

2012 HKD'000		Note	2012 RMB'000	2011 RMB'000
	Non-current assets			
139,377	Fixed assets	13	113,131	108,230
19,403	Intangible assets	14	15,749	5,348
34,746	Goodwill	15	28,203	12,961
9,174	Software development in progress	16	7,446	—
9,497	Interests in associates	18	7,709	4,008
1,543	Interest in a jointly controlled entity	19	1,252	1,618
331	Investments	20	269	2,000
2,262	Deferred tax assets	26(b)	1,836	5,254
216,333			175,595	139,419
	Current assets			
263,997	Trade receivables	21	214,283	196,684
80,539	Other receivables, deposits and prepayments	22	65,373	73,602
173,096	Deposits and cash	23	140,500	142,487
517,632			420,156	412,773
	Current liabilities			
24,455	Trade payables	24	19,850	23,915
97,052	Other payables and accruals	24	78,776	78,656
1,407	Amount due to an associate	18	1,142	—
—	Amount due to a jointly controlled entity	19	—	2,062
41,905	Bank loans	25	34,014	35,695
35,003	Taxation payable	26(a)	28,411	33,671
199,822			162,193	173,999
317,810	**Net current assets**		257,963	238,774

Consolidated Statement of Financial Position *(continued)*

At 31 December 2012

2012 HKD'000		Note	2012 RMB'000	2011 RMB'000
534,143	**Total assets less current liabilities**		433,558	378,193
	Non-current liabilities			
(13,983)	Bank loans	25	(11,350)	(13,106)
(2,392)	Deferred tax liabilities	26(b)	(1,942)	(612)
(16,375)			(13,292)	(13,718)
517,768	**NET ASSETS**		420,266	364,475
	CAPITAL AND RESERVES			
4,741	Share capital	27	3,848	3,848
513,027	Reserves	28	416,418	360,627
517,768	**TOTAL EQUITY**		420,266	364,475

Approved and authorised for issue by the board of Directors on 19 March 2013.

)
)
) Directors
)
)

The notes on pages 68 to 135 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

2012 HKD'000		Note	2012 RMB'000	2011 RMB'000
	Non-current asset			
10,848	Investments in subsidiaries	17	8,805	8,805
	Current assets			
10,223	Receivables, deposits and prepayments	22	8,298	8,324
190,749	Amounts due from subsidiaries	17	154,829	129,180
329	Deposits and cash	23	267	19,921
201,301			163,394	157,425
	Current liabilities			
499	Payables and accruals	24	405	1,063
8,001	Bank loans	25	6,494	8,107
5,758	Amounts due to subsidiaries	17	4,674	4,669
14,258			11,573	13,839
187,043	**Net current assets**		151,821	143,586
197,891	**NET ASSETS**		160,626	152,391
	CAPITAL AND RESERVES			
4,741	Share capital	27	3,848	3,848
193,150	Reserves	28	156,778	148,543
197,891	**TOTAL EQUITY**		160,626	152,391

Approved and authorised for issue by the board of Directors on 19 March 2013.

)
)
) Directors
)
)

The notes on pages 68 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital (Note 27) RMB'000	Shares held for Share Award Scheme (Note 27(b)) RMB'000	Share premium (Note 28) RMB'000	Other reserve (Note 28) RMB'000	Statutory surplus and general reserves (Note 28) RMB'000	Exchange reserve (Note 28) RMB'000	Retained profits (Note 28) RMB'000	Total equity RMB'000
At 1 January 2012	3,848	(7,177)	144,357	4,259	33,445	(4,410)	190,153	364,475
Changes in equity for 2012:								
Profit for the year	–	–	–	–	–	–	65,268	65,268
Other comprehensive income (note 8)	–	–	–	–	–	1,963	–	1,963
Total comprehensive income for the year	–	–	–	–	–	1,963	65,268	67,231
Dividend approved in respect of the previous year (notes 27(b) and 28(b))	–	149	–	–	–	–	(12,493)	(12,344)
Shares awarded and vested for Share Award Scheme (note 27(b))	–	904	–	–	–	–	–	904
Transfer to reserves	–	–	–	–	4,020	–	(4,020)	–
At 31 December 2012	3,848	(6,124)	144,357	4,259	37,465	(2,447)	238,908	420,266
At 1 January 2011	3,675	(4,670)	102,148	4,259	27,308	(2,049)	136,012	266,683
Changes in equity for 2011:								
Profit for the year	–	–	–	–	–	–	60,278	60,278
Other comprehensive income (note 8)	–	–	–	–	–	(2,361)	–	(2,361)
Total comprehensive income for the year	–	–	–	–	–	(2,361)	60,278	57,917
Issuance of new shares (note 27(a)(i))	173	–	42,209	–	–	–	–	42,382
Shares purchased for Share Award Scheme (note 27(b))	–	(2,507)	–	–	–	–	–	(2,507)
Transfer to reserves	–	–	–	–	6,137	–	(6,137)	–
At 31 December 2011	3,848	(7,177)	144,357	4,259	33,445	(4,410)	190,153	364,475

The notes on pages 68 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

2012 HKD'000		Note	2012 RMB'000	2011 RMB'000
	Operating activities			
114,270	Profit before taxation		92,752	85,069
	Adjustments for:			
25,139	Depreciation of fixed assets	6(d)	20,405	15,391
5,981	Amortisation of intangible assets	6(d)	4,855	1,709
(17)	Impairment losses on trade receivables (written back)/ recognised, net	6(d)	(14)	1,168
1,114	Share-based payment expense	6(b)	904	—
(1,211)	Interest income	5(a)	(983)	(289)
3,509	Finance costs	6(a)	2,848	2,685
(329)	Share of (profit)/loss of associates	18	(267)	477
451	Share of loss of a jointly controlled entity	19	366	1,707
2,132	Impairment loss on investments	20	1,731	—
—	Impairment loss on investments in a jointly controlled entity	19	—	817
639	Loss/(gain) on disposals of fixed assets	5(b)	519	(49)
2,442	Foreign exchange loss		1,982	289
	Changes in working capital:			
(2,540)	(Decrease)/increase in amount due to a jointly controlled entity		(2,062)	1,296
1,407	Increase in amount due to an associate		1,142	-
(21,651)	Increase in trade receivables		(17,574)	(44,492)
12,035	Decrease in other receivables, deposits and prepayments		9,769	2,238
(5,009)	(Decrease)/increase in trade payables		(4,066)	182
(13,771)	(Decrease)/increase in other payables and accruals		(11,178)	10,552
124,591	**Cash generated from operations**		101,129	78,750
(34,309)	PRC Corporate Income Tax paid	26(a)	(27,848)	(22,230)
90,282	**Net cash generated from operating activities**		73,281	56,520

Consolidated Cash Flow Statement *(continued)*

For the year ended 31 December 2012

2012 HKD'000		Note	2012 RMB'000	2011 RMB'000
	Investing activities			
1,211	Interest received		983	289
(31,326)	Payment for purchase of fixed assets	13(a)	(25,427)	(52,164)
(4,295)	Payment for purchase of intangible assets	14	(3,486)	(55)
(9,173)	Payment for software development in progress	16	(7,446)	—
156	Proceeds from disposals of fixed assets		127	450
(4,140)	Increase in pledged deposits	23	(3,360)	—
(22,065)	Payment for business combinations	32(a)	(17,910)	(4,500)
(4,292)	Payment for investment in an associate	18	(3,484)	—
—	Capital injection to a jointly controlled entity		—	(2,450)
(73,924)	**Net cash used in investing activities**		(60,003)	(58,430)
	Financing activities			
(3,509)	Interest paid		(2,848)	(1,472)
—	Cash proceeds from issuance of new shares upon placing of shares	27(a)	—	43,295
—	Share issuing costs paid		—	(913)
—	Payment for purchase of shares in connection with the Share Award Scheme	27(b)	—	(2,507)
(15,208)	Dividends paid		(12,344)	
31,761	Proceeds from new bank loans		25,780	34,107
(36,007)	Repayment of bank loans		(29,227)	(7,972)
(22,963)	**Net cash (used in)/generated from financing activities**		(18,639)	64,538
(6,605)	**Net (decrease)/increase in cash and cash equivalents**		(5,361)	62,628
175,544	**Cash and cash equivalents at beginning of the year**		142,487	80,613
17	**Effect of foreign exchange rates changes**		14	(754)
168,956	**Cash and cash equivalents at end of the year**	23	137,140	142,487

Major non-cash transaction

In March 2012, the Group completed the acquisition of the business operation of "Mobilezine" (note 32(b)). The consideration payable of RMB5,000,000 in respect of the acquisition was settled by off-setting with the same amount due from Guangzhou Zhongde Consultation Company Limited.

The notes on pages 68 to 135 form part of these financial statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION

Modern Media Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 March 2007 and registered as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its principal places of business in The People's Republic of China (the "PRC") and Hong Kong are at Units A, B & C, 10th Floor, Exhibition Centre, No. 1 Software Park Road, Zhuhai City, Guangdong Province, the PRC and Suite 1101-03, 11th Floor, 1063 King's Road, Quarry Bay, Hong Kong respectively; and its registered office is at Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

(i) These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IASs") and related Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") is set out below.

(ii) The IASB has issued a few amendments to IFRS that are first effective for the current accounting period of the Group and the Company. These include the amendments to IFRS 7, *Financial instruments: Disclosure - Transfers of financial assets.*

The amendments to IFRS 7 concerning transfers of financial assets require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not recognised and for any continuing involvement in a transferred financial asset existing at the reporting date, irrespective of when the related transfer transaction occurred.

None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 35).

(b) Basis of preparation of the financial statements

(i) The consolidated financial statements for the year ended 31 December 2012 comprise the Group and the Group's interests in associates and a jointly controlled entity.

(ii) The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, except when otherwise indicated. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The amounts in these financial statements are presented in RMB. The translation into Hong Kong dollars ("HK$") of these financial statements as of, and for the year ended 31 December 2012 is for convenience only and has been made at the rate of HK$1.232 to RMB1. This translation should not be construed as a representation that the RMB amounts actually represented have been, or could be, converted into Hong Kong dollars at this or any other rate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

(iii) The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary and contributions to controlled special purpose entity are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or a jointly controlled entity (see note 2(d)).

In the Company's statement of financial position, an investment in a subsidiary and contributions to Modern Media Employees' Share Award Scheme ("Modern Media Employee Share Trust"), a controlled special purpose entity, are stated at cost less impairment losses (see note 2(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets as reported in their accounts made up to dates not earlier than three months prior to the end of reporting period of the Group and any impairment loss relating to the investment (see notes 2(e) and (j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs; except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(j)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)). Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 5 years from the date of completion, and the unexpired terms of the leases.

— Land and buildings held for own use	40 - 50 years
— Office equipment	3 - 5 years
— Furniture and fixtures	3 - 10 years
— Motor vehicles	5 - 10 years

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(h) Intangible assets (other than goodwill)

(i) Computer software systems

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets if the related software does not form an integral part of the hardware on which it operates and when the following criteria are met:

— It is technically feasible to complete the software product so that it will be available for use;

— management intends to complete the software product and use or sell it;

— there is an ability to use or sell the software product;

— it can be demonstrated how the software product will generate probable future economic benefits;

— adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

— the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised in profit or loss as incurred. Development costs previously recognised in profit or loss are not recognised as an asset in a subsequent period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Intangible assets (other than goodwill) *(continued)*

(i) Computer software systems *(continued)*

Qualifying software system development expenditures and related directly attributable costs capitalised as intangible assets are amortised when they are available for use. They are amortised at rates sufficient to write off their costs net of residual values over their estimated useful lives on a straight-line basis, which do not exceed five years. The residual values and useful lives are reviewed, and adjusted if applicable, at the end of each reporting period.

Costs associated with maintaining computer systems and software programmes are recognized in profit or loss as incurred.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)).

(iii) Amortisation

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the asset's estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Publication rights	80 months
—	Customer relationship	3 - 5 years
—	Club membership	15 years
—	Domain and IT platform	3 - 10 years
—	Computer software systems	3 - 5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries, contributions to controlled special purpose entity, associates and jointly controlled entities (including those recognised using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

— For unquoted investments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(i) Impairment of investments in debt and equity securities and receivables *(continued*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the fixed assets, intangible assets, investments and goodwill may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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 profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Contributions to defined contribution retirement plans in the PRC

Contributions to local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iv) Shares held for Share Award Scheme

Where the Company's shares are acquired by the Share Award Scheme from the market, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired from reinvesting dividends received on the Awarded Shares are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(v) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

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 profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

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 tax 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 difference 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, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that 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.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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 is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

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 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.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within other payables and accruals. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(q)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other payables and accruals in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(q)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(q)(iii).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial guarantees issued, provisions and contingent liabilities (continued)

(iii) Other provision and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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 the expenditures 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.

(r) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. 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 profit or loss as follows:

(i) Advertising income

Revenue from advertising contracts and sales of air-time television advertisements, sales of product placement advertisements within television programme, net of business tax and related surcharge, are recognised upon the publication of the magazine and release of the television programme available to public in which the advertisement is placed.

(ii) Circulation income

Circulation income represents sale of magazines, which is recognised when the publication is delivered to the distributors at which time the risk and rewards of ownership has passed; and return of magazines can be estimated reliably.

(iii) TV production, sponsorship, event and service income

TV production, sponsorship, event and service income is recognised when the relevant services are provided.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition (continued)

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(vi) Dividends

Dividends income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(s) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (''functional currency''). The financial statements are presented in RMB ("presentation currency").

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in 2(u)(i).

(g) A person identified in 2(u)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

As stated in note 36, the Group has been conducting its operations in certain restricted industries through entities ("PRC Operational Entities") which are held by Mr. Shao Zhong ("Mr. Shao"), an Executive Director/controlling shareholder of the Group. Based on the contractual arrangements, the Group has effective control over the financial and operational policies of the PRC Operational Entities and derives economic benefits from the operations of the PRC Operational Entities. Accordingly, these PRC Operational Entities are regarded as subsidiaries of the Group; and their financial results and positions are consolidated into the Group.

(b) Key sources of estimation uncertainty

Note 33 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment of trade receivables

The Group estimates impairment losses for bad and doubtful debts resulting from inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(ii) Assessment of impairment of non-current assets

The Directors assess the recoverable amount of non-current assets based on their value in use or on their net selling price (by reference to market prices), taking into account the anticipated future plans for the non-current assets. Estimating the value in the use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

(iii) Depreciation and amortisation

Items of fixed assets and intangible assets are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation/amortisation expense to be recorded during the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(v) Determination of fair values of identifiable intangible assets arising from the business combinations

As disclosed in note 32, the Group acquired several business operations during the year ended 31 December 2012.

The acquired identifiable assets and liabilities and contingent liabilities assumed had to be measured at their respective fair values as at the date of acquisition. The difference between the cost of acquisition and the fair value of the Group's share of net assets so acquired was recognised as goodwill on the reporting date.

In accordance with the above assessment, goodwill of RMB15,242,000 was determined to be arising from the acquisitions at the acquisition date (note 32).

4 TURNOVER

The Group is principally engaged in the provision of multimedia advertising services, printing and distribution of magazines and provision of advertising-related services.

Turnover represents the invoiced sales net of sales discounts, sales returns and sales tax.

	2012 RMB'000	2011 RMB'000
Advertising income	644,147	593,503
Circulation income	16,106	21,753
TV production, sponsorship, event and service income	26,436	25,594
	686,689	640,850
Less: Sales taxes and other surcharges	(31,376)	(54,664)
	655,313	586,186

5 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	2012 RMB'000	2011 RMB'000
Interest income from bank deposits	983	289
PRC government incentives (note)	11,779	1,833
	12,762	2,122

Note: PRC government incentives mainly represented the amounts received by Modern Media (Zhuhai) Technology Co., Ltd. - Shanghai Branch, Shanghai Gezhi Advertising Co., Ltd., Shanghai Yage Advertising Co., Ltd. and Shanghai Senyin Information Technology Co., Ltd., wholly-owned subsidiaries of the Group (together referred to as the "Shanghai subsidiaries"). Pursuant to respective agreements between the local government bureau and each of the Shanghai subsidiaries, the Group received incentives of RMB10,025,000 from the local government bureau for its media development for the year ended 31 December 2012 (2011: RMB1,833,000) which were computed based on a specified percentage of enterprise income tax, value-added tax, business tax, city development tax and individual income tax paid in the previous years.

(b) Other net loss

	2012 RMB'000	2011 RMB'000
Net foreign exchange gain/(loss)	153	(152)
(Loss)/gain on disposals of fixed assets	(519)	49
	(366)	(103)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2012 RMB'000	2011 RMB'000
(a) Finance costs		
Interest charged on:		
– Bank loans repayable within 5 years	1,816	312
– Bank loans repayable after 5 years	1,032	1,160
	2,848	1,472
Fair value change on re-measurement of contingent consideration arising from business combinations	–	1,213
	2,848	2,685
(b) Staff costs		
Salaries, wages and other benefits	172,311	141,814
Share-based payments expenses (note 27(b))	904	–
Contributions to defined contribution retirement plan (note)	34,706	25,616
	207,921	167,430
Less: Amount included in research and development expenditure (note 6(c))	(6,054)	–
	201,867	167,430
Staff costs included in:		
– Cost of sales	83,312	70,371
– Selling and distribution expenses	58,584	49,723
– Administrative and other operating expenses	59,971	47,336
	201,867	167,430
(c) Research and development expenditure		
Research and development expenditure comprise of:		
– Staff costs (note 6(b))	6,054	–
– Other research and development expenditure and overheads	5,165	–
	11,219	–
Less: Amounts capitalised	(10,932)	–
	287	–
(d) Other items		
Depreciation of fixed assets	20,405	15,391
Amortisation of intangible assets	4,855	1,709
Auditors' remuneration		
– Audit services	1,981	1,511
– Other services	355	448
Operating lease charges in respect of properties	23,423	19,233
Impairment losses on trade receivables (written back)/recognised, net	(14)	1,168
Impairment loss on investments	1,731	–
Impairment loss on investment in a jointly controlled entity	–	817

6 PROFIT BEFORE TAXATION (continued)

Note: Employees of the Group's subsidiaries operated in the PRC are required to participate in a defined contribution retirement benefit scheme administered and operated by the local municipal government. The Group's subsidiaries operated in the PRC are required to make contributions to the scheme at 20% of the employees' salaries for the years ended 31 December 2012 and 2011 to fund the retirement benefits of the employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the MPF scheme vest immediately.

The Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the contributions described above.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

	2012 RMB'000	2011 RMB'000
Current tax - PRC Corporate Income Tax		
Provision for the year	22,228	25,052
Withholding tax (note (v))	1,006	2,000
Over-provision in respect of prior years	(508)	(581)
	22,726	26,471
Deferred tax		
Origination and reversals of temporary differences (note 26(b))	4,758	(1,680)
	27,484	24,791

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(ii) The provision for Hong Kong Profits Tax for the years ended 31 December 2012 and 2011 was calculated at 16.5% of the estimated assessable profits for the respective years. No provision has been made on the subsidiaries in Hong Kong for Hong Kong Profits Tax as either the tax losses brought forward from previous years exceed the estimated assessable profits for the year or the subsidiaries have no estimated assessable profits in Hong Kong.

(iii) The provision for PRC Corporate Income Tax for the years ended 31 December 2012 and 2011 was calculated at the prevailing tax rates, pursuant to the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law.

(iv) No tax attributable to associates and jointly controlled entity for the years ended 31 December 2012 and 2011 are included in the share of results of associates and jointly controlled entity respectively.

(v) During the year ended 31 December 2012, the Group made a provision of RMB1,006,000 (2011: RMB2,000,000) for withholding income tax on dividends distributed by Modern Media (Zhuhai) Technology Co., Ltd. ("Zhuhai Technology").

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(continued)*

(b) Reconciliation between tax expense and profit before taxation at applicable tax rates:

	2012 RMB'000	2011 RMB'000
Profit before taxation	92,752	85,069
Notional tax on profit before taxation, calculated at the rate of 25% (2011: 25%)	23,188	21,268
Effect of differential tax rate on income	3,625	1,209
Tax effect of non-deductible expenses	1,621	1,855
Tax effect of non-taxable revenue	(3,324)	—
Tax effect of prior years' unrecognised tax losses recognised this year	-	(278)
Tax effect of prior years' unrecognised tax losses utilised this year	(240)	(1,039)
Tax effect of unused tax losses not recognised	478	357
Tax effect of prior years' deductible temporary differences utilised	1,872	—
Withholding tax on dividends distributed by PRC foreign investment enterprise	1,006	2,000
Over-provision in prior years	(508)	(581)
Others	(234)	—
Actual tax expense	27,484	24,791

8 OTHER COMPREHENSIVE INCOME

	2012 RMB'000	2011 RMB'000
Share of other comprehensive income of an overseas associate	(50)	—
Exchange differences on translation of financial statements of overseas subsidiaries	2,013	(2,361)
	1,963	(2,361)

There are no tax effects relating to the above components of other comprehensive income.

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB65,268,000 (2011: RMB60,278,000) and the weighted average number of ordinary shares in issue after adjusting for shares held for the Share Award Scheme and placing of shares of 432,428,000 shares (2011: 424,708,000 shares) calculated as follows:

	Note	2012 '000	2011 '000
Issued ordinary shares at 1 January	27(a)	437,850	417,000
Effect of shares held for the Share Award Scheme	27(b)	(5,422)	(5,259)
Effect of share placement	27(a)	—	12,967
Weighted average number of ordinary shares		432,428	424,708

There were no dilutive potential ordinary shares during the years ended 31 December 2012 and 2011.

10 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2012					2011
	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
SHAO Zhong	–	2,644	200	62	2,906	2,564
WONG Shing Fat	–	2,540	2,134	81	4,755	3,594
LI Jian	–	1,435	1,428	66	2,929	2,086
MOK Chun Ho, Neil	–	1,268	564	40	1,872	1,435
CUI Jianfeng	–	1,079	1,265	11	2,355	1,613
Independent non-executive Directors						
MAO Xiaofeng (note (i))	110	–	–	–	110	–
JIANG Nanchun	132	–	–	–	132	124
WANG Shi	132	–	–	–	132	124
AU-YEUNG Kwong Wah	210	–	–	–	210	182
Total	584	8,966	5,591	260	15,401	
Total for 2011	430	8,300	2,749	243		11,722

Notes:

(i) Mr. MAO Xiaofeng was appointed as an independent non-executive director of the Company with effect from 29 February 2012.

(ii) No Director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2012 and 2011. No Director waived or agreed to waive any emoluments during the years ended 31 December 2012 and 2011.

(iii) The Company has not granted any options under its share option scheme adopted on 24 August 2009 during the years ended 31 December 2012 and 2011.

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

(a) Emoluments of five highest individuals

The five highest paid individuals of the Group include 4 Directors during the year ended 31 December 2012 (2011: 4) whose emoluments are disclosed in note 10. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries, allowances and benefits in kind	2,498	2,498
Discretionary bonus	97	126
Retirement scheme contributions	—	—
	2,595	2,624

The emoluments of these individuals are within the following band:

	Number of individuals 2012	2011
RMB2,500,001 to RMB3,000,000	1	1

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2012 and 2011.

(b) Emoluments of senior management

Other than the directors' remuneration and emoluments of five highest individuals disclosed in notes 10 and 11(a), the emoluments of the senior management whose profiles are included in Senior Management Profile section of this report fell within the following bands:

	Number of individuals 2012	2011
RMB500,001 to RMB1,000,000	1	4
RMB1,000,001 to RMB1,500,000	3	2
RMB1,500,001 to RMB2,000,000	2	1
RMB2,000,001 to RMB2,500,000	—	—
RMB2,500,001 to RMB3,000,000	1	1
	7	8

12 SEGMENT REPORTING

The Group has four reportable segments described below, which are the Group's strategic business units. For each of the business units, the Group's senior executive management reviews internal management reports on a monthly basis. Segment information below is presented in a manner consistent with the ways in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The following describes the operations in each of the Group's reportable segments:

- Print media advertising: this segment engages in the sale of advertising space in the Group's magazines to advertising customers in the PRC and Hong Kong.
- Circulation: this segment engages in the publication of and the distribution of the Group's magazines in the PRC and Hong Kong.
- Digital media: this segment is a digital media platform in which the Group publishes multiple digital media products and sells advertising spaces.
- Television: this segment engages in the sales of air-time television advertisements, sales of product placement advertisements within television programs, and syndication income from distributing programs to various television channels.

Other operations include the Group's provision of management and consultancy services, and exhibition and event arrangement services to the Group's customers.

(a) Segment results and assets

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment assets include fixed assets, intangible assets, goodwill, software development in progress and trade receivables arising from each of the reportable segments as the Group's senior executive management considers that the utilisation of fixed assets, intangible assets, goodwill and software development in progress and the recoverability of trade receivables have significant impact to the Group's actual performance, liquidity and credit risk. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

Revenue and expenses are allocated to the reportable segments with reference to the income generated by those segments and the expenses incurred by those segments. Segment results do not include the Group's share of results arising from the activities of the Group's associates and jointly controlled entity as these investments do not form a significant part of the Group's operation.

The measure used for reporting segment profit or loss is profit or loss before tax, as included in the internal management reports that are reviewed by the Group's senior executive management. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to the budget of the respective segments, and other entities that operate within these industries.

12 SEGMENT REPORTING (continued)

(a) Segment results and assets (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below:

	2012				
	Print media advertising RMB'000	Digital media RMB'000	Television RMB'000	Circulation RMB'000	Total RMB'000
Revenue derived from the Group's external customers	614,826	31,919	5,192	16,106	668,043
Inter-segment revenue	—	2,283	—	—	2,283
Reportable segment revenue	614,826	34,202	5,192	16,106	670,326
Reportable segment profit/(loss)	202,951	12,819	(10,214)	(102,213)	103,343
Interest income	—	—	—	—	—
Interest expense	—	—	—	—	—
Depreciation for the year	(15,964)	(1,473)	(2,331)	(62)	(19,830)
Amortisation for the year	(508)	(4,347)	—	—	(4,855)
Reportable segment assets as at 31 December 2012	287,156	73,035	6,984	8,176	375,351

	2011				
	Print media advertising RMB'000	Digital media RMB'000	Television RMB'000	Circulation RMB'000	Total RMB'000
Revenue derived from the Group's external customers	577,995	15,305	2,667	21,753	617,720
Inter-segment revenue	—	—	—	—	—
Reportable segment revenue	577,995	15,305	2,667	21,753	617,720
Reportable segment profit/(loss)	179,508	7,984	(15,043)	(87,444)	85,005
Interest income	168	—	—	2	170
Interest expense	(1,339)	—	—	—	(1,339)
Depreciation for the year	(12,853)	(95)	(1,178)	(82)	(14,208)
Amortisation for the year	(509)	(1,200)	—	—	(1,709)
Reportable segment assets as at 31 December 2011	269,358	24,350	10,249	12,266	316,223

12 SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss and assets

	2012 RMB'000	2011 RMB'000
Revenue		
Reportable segment revenue derived from the Group's external customers	668,043	617,720
Other income	18,646	23,130
Less: Sales taxes and other surcharges	(31,376)	(54,664)
Consolidated turnover	655,313	586,186
Profit		
Reportable segment profit derived from the Group's external customers	103,343	85,005
Other income	18,646	23,130
Share of profit/(loss) of associates	267	(477)
Share of loss of a jointly controlled entity	(366)	(1,707)
Impairment loss on investment in a jointly controlled entity	—	(817)
Impairment loss on investments	(1,731)	—
Unallocated head office and corporate expense (note)	(27,407)	(20,065)
Consolidated profit before taxation	92,752	85,069

Note: Depreciation of RMB575,000 is included in unallocated head office and corporate expense for the year ended 31 December 2012 (2011: RMB1,183,000).

Interest income of RMB983,000 is included in unallocated head office and corporate expense for the year ended 31 December 2012 (2011: RMB119,000).

Interest expenses of RMB2,848,000 is included in unallocated head office and corporate expenses for the year ended 31 December 2012 (2011: RMB133,000).

12 SEGMENT REPORTING (continued)

(b) Reconciliations of reportable segment revenues, profit or loss and assets (continued)

	2012 RMB'000	2011 RMB'000
Assets		
Reportable segment assets	375,351	316,223
Corporate and unallocated assets	3,461	7,000
Interests in associates	7,709	4,008
Interest in a jointly controlled entity	1,252	1,618
Investments	269	2,000
Deferred tax assets	1,836	5,254
Other receivables, deposits and prepayments	65,373	73,602
Deposits and cash	140,500	142,487
Consolidated total assets	595,751	552,192

(c) Geographic information

The following table sets out information about the geographical location of the Group's fixed assets, intangible assets, goodwill, software development in progress, investments and interests in associates and a jointly controlled entity ("specified non-current assets"). The geographical location of the specified non-current assets is based on (i) the physical location of the asset, in the case of fixed assets; (ii) the location of the operation to which they are allocated, in the case of intangible assets, goodwill and software development in progress; and (iii) the location of operations, in the case of investments and interests in associates and a jointly controlled entity.

	2012 RMB'000	2011 RMB'000
The PRC (place of domicile)	154,048	124,789
Hong Kong	15,690	8,633
Japan	3,410	—
Taiwan	611	743
	173,759	134,165

(d) Major customers

The Group's customer base includes one customer (2011: one customer) with whom transactions have exceeded 10% of the Group's revenues. During the years ended 31 December 2012 and 2011, advertising income from this customer amounted to RMB81,985,000 and RMB90,107,000 respectively and arose mainly in print media advertising reportable segment.

13 FIXED ASSETS

(a) The Group

	Land and buildings held for own use RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:						
At 1 January 2011	40,173	28,367	21,302	11,127	9,774	110,743
Additions	8,492	13,111	9,137	16,563	4,861	52,164
Disposals	–	–	(546)	(7)	(918)	(1,471)
Exchange differences	–	(96)	(73)	(102)	(60)	(331)
At 31 December 2011	48,665	41,382	29,820	27,581	13,657	161,105
At 1 January 2012	48,665	41,382	29,820	27,581	13,657	161,105
Additions	–	4,246	5,924	14,354	903	25,427
Arising from business combinations (note 32)	–	–	1,844	–	–	1,844
Disposals	–	(3,557)	(5,385)	(447)	(84)	(9,473)
Exchange differences	–	(4)	1	(13)	2	(14)
At 31 December 2012	48,665	42,067	32,204	41,475	14,478	178,889

13 FIXED ASSETS (continued)

(a) The Group (continued)

	Land and buildings held for own use RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation:						
At 1 January 2011	3,732	13,249	13,172	5,149	3,378	38,680
Charge for the year	918	5,892	4,242	2,542	1,797	15,391
Written back on disposals	–	–	(503)	(7)	(560)	(1,070)
Exchange differences	–	(3)	(59)	(30)	(34)	(126)
At 31 December 2011	4,650	19,138	16,852	7,654	4,581	52,875
At 1 January 2012	4,650	19,138	16,852	7,654	4,581	52,875
Arising from business combinations (note 32)	–	–	1,306	–	–	1,306
Charge for the year	959	7,079	5,936	4,052	2,379	20,405
Written back on disposals	–	(3,417)	(4,910)	(420)	(80)	(8,827)
Exchange differences	–	–	1	(3)	1	(1)
At 31 December 2012	5,609	22,800	19,185	11,283	6,881	65,758
Net book value:						
At 31 December 2012	43,056	19,267	13,019	30,192	7,597	113,131
At 31 December 2011	44,015	22,244	12,968	19,927	9,076	108,230

(b) The analysis of net book value of properties is as follows:

	2012 RMB'000	2011 RMB'000
Leasehold properties held outside Hong Kong		
– Medium-term leases (20-50 years)	34,846	35,644
– Long-term leases (over 50 years)	8,210	8,371
	43,056	44,015

(c) Pledge of assets

Land and buildings held by a subsidiary with carrying value of RMB34,846,000 (2011: RMB35,644,000) was pledged as security for the bank loans amounted to RMB13,090,000 as at 31 December 2012 (2011: RMB14,694,000) (note 25).

Notes to the Financial Statements *(continued)*

14 INTANGIBLE ASSETS

The Group

	Publishing rights RMB'000	Customer relationship RMB'000	Domain and IT platform RMB'000	Computer software systems RMB'000	Others RMB'000	Total RMB'000
Cost:						
At 1 January 2011	3,000	3,652	–	–	1,353	8,005
Additions	–	–	–	–	55	55
Exchange differences	–	–	–	–	(34)	(34)
At 31 December 2011	3,000	3,652	–	–	1,374	8,026
At 1 January 2012	3,000	3,652	–	–	1,374	8,026
Additions	–	–	–	3,486	–	3,486
Exchange differences	–	–	–	–	1	1
Arising from business combinations (note 32)						
– Mobilezine Acquisition	–	3,140	–	–	–	3,140
– Website Acquisition	–	3,590	4,239	–	800	8,629
At 31 December 2012	3,000	10,382	4,239	3,486	2,175	23,282
Accumulated amortisation:						
At 1 January 2011	825	52	–	–	97	974
Charge for the year	450	1,200	–	–	59	1,709
Exchange differences	–	–	–	–	(5)	(5)
At 31 December 2011	1,275	1,252	–	–	151	2,678
At 1 January 2012	1,275	1,252	–	–	151	2,678
Charge for the year	450	2,768	718	127	792	4,855
At 31 December 2012	1,725	4,020	718	127	943	7,533
Net book value:						
At 31 December 2012	1,275	6,362	3,521	3,359	1,232	15,749
At 31 December 2011	1,725	2,400	–	–	1,223	5,348

The amortisation charges of publishing rights and other intangible assets are included in "cost of sales" and "administrative and other operating expenses" respectively in the consolidated statement of comprehensive income.

15 GOODWILL

	2012 RMB'000	2011 RMB'000
At 1 January	12,961	12,961
Arising from business combination (note 32)		
– Website Acquisition	12,843	—
– Mobilezine Acquisition	2,399	—
At 31 December	28,203	12,961

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and operating segment as follows:

	2012 RMB'000	2011 RMB'000
Digital media - the PRC	28,203	12,961

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows are discounted using discount rates of 23.8% (2011: 23.8%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

As at 31 December 2012, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. No impairment was recorded.

16 SOFTWARE DEVELOPMENT IN PROGRESS

Software development in progress consists of development expenditures and related directly attributable costs on computer software systems of the Group. The amounts are neither past due nor impaired.

17 INVESTMENTS IN SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

	2012 RMB'000	2011 RMB'000
Non-current asset		
Unlisted shares, at cost	—	—
Contribution to Modern Media Employee Share Trust	8,805	8,805
	8,805	8,805
Current assets/(liabilities)		
Amounts due from subsidiaries	154,829	129,180
Amounts due to subsidiaries	(4,674)	(4,669)
	150,155	124,511

The particulars of the subsidiaries comprising the Group and controlled special purpose entity are disclosed in note 36.

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18 INTERESTS IN ASSOCIATES

The Group

	2012 RMB'000	2011 RMB'000
Non-current assets		
Share of net assets	3,654	2,298
Goodwill	4,055	1,710
	7,709	4,008
Current liabilities		
Amount due to an associate	(1,142)	—

Amount due to an associate is unsecured, interest-free and repayable within one year.

Details of the Group's interests in associates as at 31 December 2012 are as follows:

Name of associates	Place of establishment and operations	Particulars of paid up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Chongqing Yubao Culture Media Co., Ltd. （重慶渝報文化傳播有限公司） ("Chongqing Yubao")	PRC	RMB10,000,000	40%	40%	Wholesaling and retailing Chongqing Yubao; Provision of advertising, publication and media service
Rakuraku Technologies Inc. ("Rakuraku")	Japan	JPY30,500,000	20%	20%	Developing computer programmes and applications over mobile digital platforms

In March 2012, the Group completed the acquisition of 20% equity interests in Rakuraku from an independent third party for a consideration of JPY45,000,000 (equivalent to RMB3,484,000).

Goodwill of RMB1,710,000 and RMB2,345,000 arose from the acquisition of Chongqing Yubao and Rakuraku respectively.

18 INTERESTS IN ASSOCIATES *(continued)*

The Group *(continued)*

As at 31 December 2012, an impairment test was performed by comparing the attributable carrying amount of the associates with the recoverable amount. The recoverable amount is based on estimated discounted cash flow. No impairment was recorded.

Summary financial information on associates - The Group's effective interest:

	2012 RMB'000	2011 RMB'000
Total assets	4,135	2,520
Total liabilities	(481)	(222)
	3,654	2,298
Revenue for the year	7,629	5,025
Profit/(loss) for the year	267	(477)

19 INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group

	2012 RMB'000	2011 RMB'000
Non-current assets		
Share of net assets	1,252	1,618
Goodwill	817	817
	2,069	2,435
Less: impairment loss	(817)	(817)
	1,252	1,618
Current liabilities		
Amount due to a jointly controlled entity	–	2,062

Amount due to a jointly controlled entity is unsecured, interest-free and repayable within one year.

Details of the Group's interest in the jointly controlled entity as at 31 December 2012 are as follows:

Name of jointly controlled entity	Place and date of establishment and operations	Particulars of paid up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Hangzhou Shili Cultural Media Co., Ltd. (杭州實力文化傳播有限公司)	PRC 3 July 2007	RMB15,000,000	49%	49%	Publication of magazine in the PRC and selling of advertising spaces

The Group is entitled to share 49% of the financial results of Hangzhou Shili. Notwithstanding the 49% of the paid up capital of and the profit sharing arrangements of Hangzhou Shili, the Group accounts for the investment in Hangzhou Shili as a jointly controlled entity as it has joint control over the operating and financial decisions of Hangzhou Shili.

19 INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The Group *(continued)*

The Group assessed the recoverable amounts of the interest in a jointly controlled entity based on the present value of the estimated discounted future cash flow and an impairment loss of RMB817,000 (included in "administrative and operating expenses") was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2011.

Summary financial information on the jointly controlled entity - the Group's effective interest:

	2012 RMB'000	2011 RMB'000
Non-current assets	93	135
Current assets	1,624	1,948
Current liabilities	(465)	(465)
Net assets	1,252	1,618
Income	1,710	2,722
Expenses	(2,076)	(4,429)
Loss for the year	(366)	(1,707)

20 INVESTMENTS

	2012 RMB'000	2011 RMB'000
Equity securities		
Unlisted equity securities, at cost	2,000	2,000
Less: Impairment loss	(1,731)	—
Carrying value	269	2,000

As at 31 December 2012, the carrying value of individually impaired investments amounted to RMB269,000 (2011: RMB2,000,000) and impairment loss of RMB1,731,000 was recognized in the consolidated statement of comprehensive income for the year ended 31 December 2012 following the assessment of recoverable amount of the investment in accordance with accounting policy (note 2(j)).

21 TRADE RECEIVABLES

The Group normally allows a credit period ranging from 30 to 180 days to its advertising and circulation customers (with a certain limited number of customers granted a credit period of 270 days). Further details on the Group's credit policy are set out in note 33(a).

	2012 RMB'000	2011 RMB'000
Trade receivables	215,954	198,538
Less: Allowance for doubtful debts	(1,671)	(1,854)
	214,283	196,684

(a) Ageing analysis

An ageing analysis of trade receivables by transaction date is as follows:

	2012 RMB'000	2011 RMB'000
Within 30 days	87,659	72,320
31 days to 90 days	74,847	75,264
91 days to 180 days	37,480	37,515
More than 180 days	15,968	13,439
	215,954	198,538
Less: Allowance for doubtful debts	(1,671)	(1,854)
	214,283	196,684

All of the trade receivables are expected to be recovered within one year.

21 TRADE RECEIVABLES *(continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	1,854	686
Impairment loss recognised	130	1,203
Impairment loss written back	(144)	(35)
Uncollectible amounts written off	(169)	—
At 31 December	1,671	1,854

At 31 December 2012, the Group's trade receivables of RMB130,000 (2011: RMB1,203,000) were individually determined to be impaired respectively. The individually impaired receivables related to customers which management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

21 TRADE RECEIVABLES *(continued)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	143,461	133,214
Less than 1 month past due	25,842	29,981
1 to 3 months past due	20,735	18,688
Over 3 months past due	24,245	14,801
	70,822	63,470
	214,283	196,684

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Prepayments	14,562	14,632	181	217
Rental, utility and other deposits	7,584	7,035	—	—
Printing deposits	11,545	11,535	8,117	8,107
Advances to employees	1,891	1,415	—	—
Value-added tax recoverable	16,993	16,258	—	—
Other receivables (notes (b) and (c))	12,798	22,727	—	—
	65,373	73,602	8,298	8,324

Notes:

(a) At 31 December 2012, the amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is RMB4,416,000 (2011: RMB5,975,000).

(b) At 31 December 2011, other receivables included the amounts of RMB3,747,000 due from Shanghai Senyin Information Technology Co., Ltd. (上海森音信息技術有限公司) ("Shanghai Senyin"). The amounts due from Shanghai Senyin were unsecured, interest free and had no fixed term of repayment. During the year ended 31 December 2012, Shanghai Senyin has become a wholly-owned subsidiary of the Group subsequent to the completion of the Website Acquisition as disclosed in note 32(a).

(c) At 31 December 2012, other receivables included the amounts of RMB2,895,000 (2011: RMB9,746,000) due from Guangzhou Zhongde Consultation Company Limited. The amounts are unsecured, interest free and repayable by instalments.

23 DEPOSITS AND CASH

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash at bank held for specific use (note)	1,341	1,196	—	—
Deposits with banks	40,500	18,673	—	18,673
Pledged deposits (note 25)	3,360	—	—	—
Cash at banks	93,423	120,166	267	1,248
Cash in hand	1,876	2,452	—	—
	139,159	141,291	267	19,921
Deposits and cash in the statement of financial position	140,500	142,487	267	19,921
Less: Pledged deposits	(3,360)	—		
Cash and cash equivalents in the consolidated cash flow statement	137,140	142,487		

At 31 December 2012, deposits and cash of the Group included the amounts denominated in RMB of RMB124,996,000 (2011: RMB118,079,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Note: Cash at bank held for specific use represented cash deposited at bank held by a controlled special purpose entity for the purpose of acquiring the Company's shares for awarding to the Group's employees (including Directors) under the Share Award Scheme. Details of the Share Award Scheme are set out in note 27(b).

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables (note 24(a))	19,850	23,915	—	—
Other payables (note 24(b))	71,012	71,626	350	101
Accruals	7,764	7,030	55	962
Other payables and accruals	78,776	78,656	405	1,063

Except for the amount of deferred revenue expected to be recognised as income after one year of RMB14,400,000 (2011: RMBNil), all of the trade and other payables are expected to be settled or recognised as income within one year.

(a) An ageing analysis of trade payables of the Group is as follows:

	2012 RMB'000	2011 RMB'000
Within 30 days	9,439	13,557
31 days to 90 days	9,227	10,358
91 days to 180 days	1,148	—
More than 180 days	36	—
	19,850	23,915

(b) An analysis of the other payables of the Group is analysed as follows:

	2012 RMB'000	2011 RMB'000
Deposits received in advance (note (a))	5,139	7,060
Deferred revenue (note (b))	16,200	—
Salaries, wages, bonus and benefits payable	23,184	17,207
Other tax payables	11,750	18,726
Other payables (note (c))	14,739	28,633
	71,012	71,626

Note:

(a) Deposits received in advance represented advertising deposits received from advertisers and advances from customers.

(b) Deferred revenue represented the amounts received before the related work was performed.

(c) Other payables at 31 December 2012 included (i) advertising and promotion expenses payable of RMB2,584,000 (2011: RMB7,653,000), (ii) miscellaneous operating costs payables and accruals of RMB9,495,000 (2011: RMB12,944,000) and (iii) the consideration payable of RMBNil in respect of the acquisition of the business operation of "iWeekly" (2011: RMB4,500,000).

25 BANK LOANS

At 31 December 2012, the bank loans were repayable as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within 1 year or on demand	34,014	35,695	6,494	8,107
After 1 year but within 2 years	1,870	1,715	–	–
After 2 years but within 5 years	6,488	6,020	–	–
After 5 years	2,992	5,371	–	–
	11,350	13,106	–	–
	45,364	48,801	6,494	8,107
Bank loans				
– Unsecured (note (a))	23,874	14,107	6,494	8,107
– Secured (notes (a) and (b))	21,490	34,694	–	–
	45,364	48,801	6,494	8,107

Notes:

(a) Unsecured bank loans of RMB17,380,000 (2011: RMB6,000,000) and secured bank loan of RMB8,400,000 (2011: RMB20,000,000) were guaranteed by Mr. Shao, the controlling shareholder of the Company.

(b) Other than the security set out below, the secured bank loans of RMB13,090,000 were also guaranteed by the Company and Shanghai Gezhi Advertising Co., Ltd., a subsidiary of the Group (2011: RMB14,694,000).

At 31 December 2012, the bank loans of RMB21,490,000 (2011: RMB34,694,000) were secured by the following assets:

	2012 RMB'000	2011 RMB'000
Land and buildings held for own use (note 13)	34,846	35,644
Pledged deposits (note 23)	3,360	–
Trade receivables	–	20,000

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Taxation payable in the consolidated statement of financial position

	2012 RMB'000	2011 RMB'000
At 1 January	33,671	29,430
Provision for the year:		
– PRC Corporate Income Tax	21,720	24,471
– Withholding Tax	1,006	2,000
Arising from business combinations (note 32)	(132)	—
Tax paid:		
– PRC Corporate Income Tax	(27,848)	(22,230)
	28,417	33,671
Exchange differences	(6)	—
At 31 December	28,411	33,671

Taxation payable in the consolidated statement of financial position at 31 December 2012 is expected to be payable within one year.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets/(liabilities) recognised

(i) The component of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movement during the year is as follows:

	Future benefit of tax losses RMB'000	Depreciation allowances in excess of the related depreciation RMB'000	Other temporary differences RMB'000	Total RMB'000
Deferred tax assets/ (liabilities) arising from:				
At 1 January 2012	3,152	(612)	2,102	4,642
Exchange adjustment	14	—	(4)	10
Charged to profit or loss (note 7(a))	(2,534)	(450)	(1,774)	(4,758)
At 31 December 2012	632	(1,062)	324	(106)
At 1 January 2011	3,188	—	—	3,188
Exchange adjustment	(122)	(100)	(4)	(226)
Credited/(charged) to profit or loss (note 7(a))	86	(512)	2,106	1,680
At 31 December 2011	3,152	(612)	2,102	4,642

(ii) Reconciliation to the consolidated statement of financial position

	2012 RMB'000	2011 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,836	5,254
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,942)	(612)
	(106)	4,642

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of accumulative tax losses of RMB1,396,000 at 31 December 2012 (2011: RMB1,261,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the PRC operations expire five years after the relevant accounting year end date.

(d) Deferred tax liabilities not recognised

At 31 December 2012, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB71,101,000 (2011: RMB20,274,000). Deferred tax liabilities of RMB3,555,000 (2011: RMB1,014,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27 SHARE CAPITAL

(a) The movements in the authorised and issued share capital of the Company during the year are set out as follows:

The Company

	Note	Number of shares	Ordinary shares of HK$0.01 each	
			HK$'000	RMB'000
Authorised:				
At 1 January 2011, 31 December 2011, and 31 December 2012		8,000,000,000	80,000	70,485
Issued and fully paid:				
At 1 January 2011		417,000,000	4,170	3,675
Placing of shares	(i)	20,850,000	209	173
At 31 December 2011		437,850,000	4,379	3,848
At 1 January 2012 and 31 December 2012		437,850,000	4,379	3,848

Note:

(i) Placing of shares

On 19 May 2011, the Company issued and allotted 20,850,000 shares at a price of HK$2.50 per share to Mr. Shao for gross proceeds of HK$52,125,000 (equivalent to RMB43,295,000). The difference of HK$50,818,000 (equivalent to RMB42,209,000) between the net proceeds of HK$51,026,000 (equivalent to RMB42,382,000) and the par value of the share issue of HK$209,000 (equivalent to RMB173,000) has been credited to the share premium account of the Company (note 28(c)(i)). The shares were issued for the purpose of share placement (the "2011 Placing") in May 2011.

The details of the 2011 Placing and subscription of shares were set out in the Company's announcement dated 6 May 2011.

27 SHARE CAPITAL *(continued)*

(b) Share award scheme

On 3 December 2009, the Board of Directors of the Company (the "Board") approved the Share Award Scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Share Award Scheme and the maximum number of Awarded Shares awarded to a Selected Employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company.

Pursuant to the Share Award Scheme, the Remuneration Committee of the Company shall select the Selected Employees and determine the number of Awarded Shares to be awarded. Relevant number of shares awarded will be purchased by the controlled special purpose entity, as administered by the trustee of the Share Award Scheme, from the market at the cost of the Company and be held until they are vested in accordance with the rules of the Share Award Scheme.

Upon adoption of the Share Award Scheme, the Board also resolved to provide a total amount not exceeding HK$10 million to the controlled special purpose entity for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contributions to the Group and an incentive to retain them for the continual operation and development of the Group.

The Share Award Scheme shall be effective from 7 December 2009 for a term of ten years and shall continue in full force unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Employee under the Share Award Scheme.

(i) Details of the Awarded Shares awarded and vested during the year ended 31 December 2012 are as follows:

Vesting date	Date of award	Number of Awarded Shares vested	Average fair value per share		Cost of related Awarded Shares	
			HK$	RMB	HK$'000	RMB'000
4 June 2012	14 May 2012	430,000	2.58	2.10	1,109	904

27 SHARE CAPITAL *(continued)*

(b) Share award scheme *(continued)*

(ii) Movement in the number of Awarded Shares held under the Share Award Scheme is as follows:

	2012 Number of shares held	2012 Value RMB'000	2011 Number of shares held	2011 Value RMB'000
At 1 January	5,670,000	7,177	4,070,000	4,670
Purchased during the year (note)	—	—	1,600,000	2,507
Dividend reinvested to the scheme	—	(149)	—	—
Shares vested during the year	(430,000)	(904)	—	—
At 31 December	5,240,000	6,124	5,670,000	7,177

Note: Average fair value per share was RMB Nil (2011: RMB1.57).

During the year ended 31 December 2012, the controlled special purpose entity did not purchase any Awarded Shares. In 2011, 1,600,000 Awarded Shares were purchased from the open market by the controlled special purpose entity at a total cost (including related transaction costs) of HK$3,018,000 (equivalent to RMB2,507,000) and had been deducted from shareholders' equity.

During the year ended 31 December 2012, 430,000 shares were awarded and vested to Selected Employees, under the Share Award Scheme, as approved by the Board of Directors of the Company (2011: Nil).

Share-based payment expense of RMB904,000 in respect of the Award Shares was charged to the consolidated statement of comprehensive income for the year ended 31 December 2012 (2011: Nil).

At 31 December 2012, there were no outstanding unvested awarded shares (2011: Nil).

28 RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At 1 January 2011		3,675	102,148	(2,720)	(8,692)	94,411
Changes in equity for 2011:						
Issuance of new shares	27(a)(i)	173	42,209	–	–	42,382
Profit for the year		–	–	–	21,329	21,329
Other comprehensive income		–	–	(5,731)	–	(5,731)
Total comprehensive income for the year		–	–	(5,731)	21,329	15,598
At 31 December 2011 and 1 January 2012		3,848	144,357	(8,451)	12,637	152,391
Changes in equity for 2012:						
Dividends approved in respect of the previous year	28(b)	–	–	–	(12,493)	(12,493)
Profit for the year		–	–	–	19,448	19,381
Other comprehensive income		–	–	1,280	–	1,280
Total comprehensive income for the year		–	–	1,280	19,448	20,728
At 31 December 2012		3,848	144,357	(7,171)	19,592	160,626

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB19,448,000 (2011: RMB21,329,000) which has been dealt with in the financial statements of the Company.

28 RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2012 RMB'000	2011 RMB'000
Final dividend proposed after the end of the reporting period of HK5.5 cents (equivalent to RMB4.5 cents) (2011: HK3.5 cents (equivalent to RMB2.84 cents)) per ordinary share	19,547	12,424

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.5 cents (equivalent to RMB2.85 cents) per share (2011: Nil)	12,493	–

28 RESERVES AND DIVIDENDS (continued)

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands (the "Companies Law"). Under the Companies Law, 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 the business.

(ii) PRC statutory reserves

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Transfers to the reserves were approved by the respective boards of Directors.

– Statutory surplus reserve

The companies comprising the Group which are incorporated in the PRC are required to appropriate 10% of their profits after taxation (after offsetting prior year losses), as determined under the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the respective registered capital. The amounts allocated to this reserve are determined by the respective boards of Directors and must be made before distribution of a dividend to equity holders.

For the entity concerned, the statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-up capital by issuing additional capital to the equity holders in proportion to the equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

– Statutory general reserve

Modern Media (Zhuhai) Technology Co., Ltd. (現代傳播 (珠海) 科技有限公司) and Yazhimei Information Consultation (Shenzhen) Co., Ltd. (雅致美信息諮詢 (深圳) 有限公司) are wholly foreign owned enterprises in the PRC which are required to transfer at least 10% of their after tax profits, as determined under the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity holders.

Statutory general reserve can be used to make good previous year's losses, if any, and may be converted into paid-up capital by issuing additional capital to the equity holders in proportion to their existing equity interests provided that the balance after such issue is not less than 25% of the registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policy as set out in note 2(s).

28 RESERVES AND DIVIDENDS (continued)

(c) Nature and purpose of reserves (continued)

(iv) Other reserve

Other reserve represented the aggregate amount of paid-in capital of the companies now comprising the Group after elimination of investments in subsidiaries.

(d) Distributable reserves

The aggregate amounts of distributable reserves of the Company as at 31 December 2012 and 2011 were RMB163,949,000 and RMB156,994,000 respectively.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a gearing ratio, being the total borrowings divided by the total assets. The gearing ratio as at 31 December 2012 was 7.6% (2011: 8.8%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

29 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2012 and 2011 not provided for in the consolidated financial statements were as follows:

	2012 RMB'000	2011 RMB'000
Authorised but not contracted for	7,500	3,715
Contracted for	–	16,541

29 COMMITMENTS (continued)

(b) Operating lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012 RMB'000	2011 RMB'000
Leases expiring:		
– Within 1 year	15,343	23,132
– After 1 year but within 5 years	9,227	18,505
	24,570	41,637

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

(c) Other commitments

At 31 December 2012, the total future minimum payments under non-cancellable licensing agreements for international cooperation titles are as follows:

	2012 RMB'000	2011 RMB'000
Licences expiring:		
– Within 1 year	11,831	6,786
– After 1 year but within 5 years	37,322	30,679
– After 5 years	22,902	26,250
	72,055	63,715

30 CONTINGENT LIABILITIES

At 31 December 2012, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank loans of up to RMB13,090,000 (2011: RMB14,694,000). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was RMBNil (2011: RMBNil).

At 31 December 2012 and 2011, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

At 31 December 2012 and 2011, the Group had no other material contingent liabilities.

31 MATERIAL RELATED PARTY TRANSACTIONS

During the year, transactions with the following parties are considered as related party transactions.

Name of parties	Relationship with the Group
Mr. Shao	Founder/shareholder/Director of the Group
Rakuraku Technologies Inc. ("Rakuraku")	An associate of the Group
Hangzhou Shili Cultural Media Co., Ltd. ("Hangzhou Shili")	A jointly controlled entity of the Group

In addition to the transactions and balances disclosed in notes 10, 11, 18, 19, 22 and 32(a), the Group entered into the following related party transactions during the year ended 31 December 2012.

(a) Related party transactions

	2012 RMB'000	2011 RMB'000
Recurring		
Agency and commission income (note (i))	187	1,055
Licensing fee expenses (note (ii))	(1,070)	—
Non-recurring		
Television programs broadcast cost (note (iii))	—	1,600
Development cost paid to an associate (note (iv))	(4,262)	—

Notes:

(i) This represented agency and commission income receivable from Hangzhou Shili. It was charged at a pre-determined rate mutually agreed, which is based on the market rates of the related services provided.

(ii) This represented the licensing fee expense payable to Hangzhou Shili for the rights to use the publishing license held by Hangzhou Shili. It is charged at a pre-determined rate mutually agreed, which is based on the market rates of the related licensing services provided.

(iii) This represented television broadcasting fee paid to Hangzhou Shili, which was charged at a pre-determined rates as mutually agreed.

(iv) This represented development cost paid to Rakuraku for the development of applications for the Group. It is charged at a pre-determined rate mutually agreed, which is based on the market rates of the related services provided.

31 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel remuneration

	2012 RMB'000	2011 RMB'000
Basic salaries, allowances and benefits in kind	12,948	12,765
Discretionary bonus	5,974	3,249
Share-based payment expenses under Share Award Scheme (note 27(b))	576	—
Retirement scheme contributions	327	303
	19,825	16,317

32 BUSINESS COMBINATIONS

(a) In February 2012, the Group completed the acquisition of 100% equity interests in Shanghai Senyin Information Technology Co., Ltd. ("Shanghai Senyin") and 100% equity interests in Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited ("Guangzhou Xiandai") (together referred to as the "Website Acquisition") for a consideration of RMB18,000,000.

The Website Acquisition is a related party transaction and also constitutes a connected party transaction as defined under the Listing Rules, details of which are set out in the announcement of the Company dated 21 September 2011.

The principal activity of Shanghai Senyin is the operation of a website. Guangzhou Xiandai is dormant but owns a digital publishing license. On completion of the Mobilezine Acquisition (note 32(b)) in March 2012, Guangzhou Xiandai took up the operation of Mobilezine.

32 BUSINESS COMBINATIONS *(continued)*

(a) *(continued)*

The Website Acquisition represents an opportunity for the Group to expand its digital media business segment. The fair values of the identifiable assets and liabilities of the website business as at the date of acquisition and the corresponding carrying amounts immediately before the Website Acquisition were as follows:

	Carrying amount RMB'000	Fair value recognised on acquisition RMB'000
Non-current assets	538	538
Intangible assets (note 14)	—	8,629
Trade and other receivables	1,502	1,502
Taxation recoverable	132	132
Cash and cash equivalents	90	90
Trade and other payables	(5,734)	(5,734)
Net assets		5,157
Goodwill (note 15)		12,843
		18,000

Satisfied by:

Purchase consideration:	
Cash paid	18,000

32 BUSINESS COMBINATIONS (continued)

(a) *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the Website Acquisition is as follows:

	RMB'000
Cash consideration paid	(18,000)
Cash and cash equivalents acquired	90
Net cash outflow in respect of the Website Acquisition	(17,910)

Since the date of the acquisition to 31 December 2012, the website business contributed turnover and profit after tax of RMB4,357,000 and RMB117,000 respectively. Had the above acquisition taken place at 1 January 2012, there would have been no significant impact on the Group's revenue and profit for the year ended 31 December 2012.

(b) In March 2012, the Group entered into an agreement with an independent third party to acquire the business operation of "Mobilezine" and its related assets (the "Mobilezine Business") (referred to as the "Mobilezine Acquisition") for a consideration of RMB5,000,000.

The principal activity of the Mobilezine Business is the publication of news and lifestyle information on a mobile network in the PRC.

The Mobilezine Acquisition represents an opportunity to expand the Group's multimedia platform. The fair values of the identifiable assets and liabilities of the Mobilezine Business as at the date of acquisition and the corresponding carrying amounts immediately before the Mobilezine Acquisition were as follows:

	Carrying amount RMB'000	**Fair value recognised on acquisition** RMB'000
Fixed assets	24	—
Intangible assets (note 14)	—	3,140
Receivables	20	20
Payables	(559)	(559)
Net assets		2,601
Goodwill (note 15)		2,399
		5,000

Satisfied by:

Purchase consideration:	
Consideration payable	5,000

Since the date of the acquisition to 31 December 2012, the Mobilezine Business contributed turnover and profit after tax of RMB1,785,000 and RMB2,000 respectively. Had the above acquisition taken place at 1 January 2012, there would have been no significant impact on the Group's revenue and profit for the year ended 31 December 2012.

32 BUSINESS COMBINATIONS *(continued)*

(c) Acquisition-related costs

The Group incurred acquisition-related costs of RMB450,000 relating to external legal fees and other professional fees. The legal and professional fees have been included in "administrative and other operating expenses" of the Group's consolidated statement of comprehensive income.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally allows a credit period of 30 to 180 days to its advertising and circulation customers (with certain limited number of customers granted a credit period of 270 days). Normally, the Group does not obtain collateral from its customers.

The Group has a certain concentration of credit risk and the details are as follow:

	2012	2011
From the Group's largest customer	13%	16%
From the Group's five largest customers	40%	45%

The Group's major customers are well-known advertising agencies and the Group believes that they are reliable and of high credit quality. Credit risks and exposure are closely controlled and monitored on an on-going basis by management of the Group.

Except for the financial guarantees given by the Company as set out in note 30, the Group does not provide any guarantees which would expose the Group or the Company to credit risk.

The Group's deposits and cash are placed with major financial institutions in Hong Kong, Taiwan and the PRC that are high-credit quality and meet the established credit rating or other criteria.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains adequate cash inflows from operations and sufficient reserves of cash to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay:

The Group

	2012					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Trade payables	19,850	19,850	19,850	-	-	-
Other payables and accruals	78,776	78,776	64,376	1,800	5,400	7,200
Amount due to an associate	1,142	1,142	1,142	-	-	-
Bank loans	45,364	45,364	34,014	1,870	6,488	2,992
	145,132	145,132	119,382	3,670	11,888	10,192

	2011					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Trade payables	23,915	23,915	23,915	—	—	—
Other payables and accruals	78,656	78,656	78,656	—	—	—
Amount due to a jointly controlled entity	2,062	2,062	2,062	—	—	—
Bank loans	48,801	48,801	35,695	1,715	6,020	5,371
	153,434	153,434	140,328	1,715	6,020	5,371

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Company

	2012					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Payables and accruals	405	405	405	–	–	–
Bank loans	6,494	6,494	6,494	–	–	–
Amounts due to subsidiaries	4,674	4,674	4,674	–	–	–
	11,573	11,573	11,573	–	–	–

	2011					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Payables and accruals	1,063	1,063	1,063	–	–	–
Bank loans	8,107	8,107	8,107	–	–	–
Amounts due to subsidiaries	4,669	4,669	4,669	–	–	–
	13,839	13,839	13,839	–	–	–

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from the bank loans and deposits and cash.

The following table details the interest rate profile of the Group's interest-generating financial assets and interest-bearing financial liabilities at the end of the reporting period:

The Group

	2012		2011	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Variable rate borrowings				
Bank loans	4.998	45,364	7.133	48,801
Variable rate deposits				
Deposits and cash	0.69	140,500	0.26	142,487

(ii) Sensitivity analysis

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's profit or loss for the years ended 31 December 2012 and 2011 and there is no impact on the Group's equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2011.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Foreign currency risk

(i) Transactions risk

As most of the Group's monetary assets and liabilities are denominated in RMB and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant.

The Group has not entered into any financial instruments for hedging purpose.

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	2012	
	Renminbi RMB'000	Hong Kong dollars HK$'000
Trade receivables	1,775	–
Other payables	(317)	–
Deposits and cash	10,029	–

	2011	
	Renminbi RMB'000	Hong Kong dollars HK$'000
Deposits and cash	–	14

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Foreign currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit/(loss) after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Renminbi	5%	576	5%	—
	(5)%	(576)	(5)%	—
Hong Kong dollars	5%	—	5%	1
	(5)%	—	(5)%	(1)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, including balances between Group companies which are denominated in a currency other than the functional currencies of the lender or the borrower.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. The analysis is performed on the same basis for 2011.

(e) Fair values

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2012 and 2011.

The carrying values of trade receivables, other receivables, deposits and prepayments, deposits and cash, trade payables, other payables and accruals, amounts due to an associate and a jointly controlled entity, and short term interest-bearing borrowings are estimated to approximate their fair values based on the nature or short-term maturity of these financial instruments.

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) In January 2013, the Group entered into a sale and purchase agreement with an independent third party in acquiring a residential property located in Shenzhen, which will be used as staff quarter for senior management, for a consideration of RMB11.5 million.

(b) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 28(b).

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of the financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
IFRS 9, *Financial instruments*	1 January 2015
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements (2011)*	1 January 2013
IAS 28, Investments *in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
Amendments to IAS 32, *Financial instruments: Presentation* "Offsetting financial assets and financial liabilities"	1 January 2014

The Group is in the process of making an assessment of the expected impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

36 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

(a) Subsidiaries

The Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of subsidiaries	Note	Place and date of incorporation/ establishment and operations	Issued and fully paid up share capital	Attributable equity interest held by the Company 2012	2011	Principal activities
Directly held:						
e-Starship Limited		British Virgin Islands 18 May 2000	US$1	100%	100%	Investment holding
Indirectly held:						
City Howwhy Limited		Hong Kong 15 May 2000	HK$2	100%	100%	Publication of magazines in Hong Kong
Highly Modern Limited		British Virgin Islands 19 July 2011	US$1	100%	100%	Investment holding
Modern Mobile Digital Media Company Limited		Hong Kong 4 December 2000	HK$2	100%	100%	Investment holding
Modern TV Investment Limited		British Virgin Islands 17 March 2011	US$1	100%	100%	Investment holding
Novel Idea Investments Limited		British Virgin Islands 16 September 2011	US$1	100%	100%	Investment holding
Modern Media Company Limited		Hong Kong 6 May 1998	HK$1,000,000	100%	100%	Provision of advertising agency services
Zhuhai Modern Zhimei Culture Media Co., Ltd.* (珠海現代致美文化傳播有限公司)	(ii)	The PRC 23 October 2006	RMB8,950,000	100%	100%	Provision of advertising agency services
Modern Media (Zhuhai) Technology Co., Ltd.* (現代傳播(珠海)科技有限公司)	(i) & (ii)	The PRC 13 April 2006	HK$40,000,000	100%	100%	Research and development, provision of advertising and consultancy services
Yazhimei Information Consultation (Shenzhen) Co., Ltd.* (雅致美信息諮詢(深圳)有限公司)	(i)	The PRC 16 August 2007	HK$2,000,000	100%	100%	Provision of management and consultation services
Guangzhou Modern Information Media Co., Ltd.* (廣州現代資訊傳播有限公司)	(ii)	The PRC 3 September 1999	RMB11,000,000	100%	100%	Publication of magazines in the PRC, provision of advertising agency services, retail sales of imported books and planning of literary arts activities and exhibitions
Shanghai Yage Advertising Co., Ltd.* (上海雅格廣告有限公司)	(ii)	The PRC 17 June 2002	RMB500,000	100%	100%	Provision of advertising agency services

36 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY *(continued)*

(a) Subsidiaries *(continued)*

Name of subsidiaries	Note	Place and date of incorporation/ establishment and operations	Issued and fully paid up share capital	Attributable equity interest held by the Company 2012	2011	Principal activities
Indirectly held: (continued)						
Beijing Modern Yage Advertising Co., Ltd.* (北京現代雅格廣告有限公司)	(ii)	The PRC 15 January 2002	RMB500,000	100%	100%	Provision of advertising agency services and organising cultural exchange activities and exhibitions
Shenzhen Yage Zhimei Information Media Co., Ltd.* (深圳市雅格致美資訊傳播有限公司)	(ii)	The PRC 8 June 2005	RMB2,000,000	100%	100%	Provision of advertising agency services
Shanghai Gezhi Advertising Co., Ltd.* (上海格致廣告有限公司)	(ii)	The PRC 16 January 2006	RMB500,000	100%	100%	Provision of advertising agency services and business information consultation services
Beijing Yage Zhimei Advertising Media Co., Ltd.* (北京雅格致美廣告傳播有限公司)	(ii)	The PRC 29 March 2006	RMB500,000	100%	100%	Provision of advertising agency services and organising cultural exchange activities and exhibitions
Guangzhou Yage Advertising Co., Ltd.* (廣州雅格廣告有限公司)	(ii)	The PRC 25 February 2004	RMB500,000	100%	100%	Design of image, planning of enterprise ceremony and provision of design, production and agency services
Guangzhou Modern Books Co., Ltd.* (廣州現代圖書有限公司)	(ii)	The PRC 24 November 2004	RMB5,010,000	100%	100%	Publication of magazines in the PRC, design and selling of advertising spaces
Zhuhai Yinhu Advertising Co., Ltd.* (珠海市銀弧廣告有限公司)	(ii)	The PRC 30 March 2001	RMB500,000	100%	100%	Provision of advertising agency services
Guangzhou Modern Video Media Co., Ltd.* (廣州摩登視頻傳媒有限公司)	(ii)	The PRC 3 March 2011	RMB3,100,000	100%	100%	Production and distribution of TV programs, design and production of advertisements, planning of cultural events and exhibition
Modern Mobile Digital Co., Ltd.* (現代移動數碼有限公司)	(ii)	Taiwan 25 November 2011	TWD6,000,000	100%	100%	Provision of advertising agency services
Shanghai Senyin Information Technology Co., Ltd. * (上海森音信息技術有限公司)	(ii)	The PRC 19 October 2005	RMB1,000,000	100%	–	Provision of website development business
Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited * (廣州現代移動數碼傳播有限公司)	(ii)	The PRC 23 May 1996	RMB10,000,000	100%	–	Provision of digital publishing business
Shanghai Yizhi Advertising Co., Ltd.*(上海意致廣告有限公司)	(ii)	The PRC 22 February 2012	RMB500,000	100%	–	Provision of advertising agency services

36 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY *(continued)*

(a) Subsidiaries *(continued)*

* The English translation of the Company names is for reference only. The official names of the companies established in the PRC and Taiwan are in Chinese.

Notes:

(i) These companies are incorporated in the PRC as wholly foreign-owned enterprises.

(ii) The equity interests of these entities are held by PRC and Taiwan nationals and/or entities on behalf of the Group.

Historically, PRC rules and regulations restricted foreign ownership of companies in certain industries. The Group has been conducting its operations in these industries through the PRC Operational Entities which are ultimately wholly-owned by Mr. Shao. During the year, the Group acquired the entire interests in Shanghai Senyin Technology Co., Ltd. and Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited (the "Target Companies"), both of which are ultimately wholly-owed by Mr. Shao.

As of the date of these financial statements, the Group does not have direct equity interests in these PRC Operational Entities and the Target Companies. However, the Group has implemented a series of Contractual Arrangements with Mr. Shao and the PRC Operational Entities and the Target Companies such that:

— The Group is entitled to enjoy all the economic benefits of the PRC Operational Entities and the Target Companies. All the dividends, capital bonus or any other assets distributed to Mr. Shao by the respective PRC Operational Entities and the Target Companies are required to transfer to the Group at nil consideration within three working days after such distribution;

— The Group is granted exclusive right to acquire, to the extent permissible under PRC laws, equity interests in the PRC Operational Entities and the Target Companies at nil consideration or for a nominal price; and

— Mr. Shao is required to consult with and follow the instructions of the Group, whenever he exercises his rights as the equity shareholder of the PRC Operational Entities and the Target Companies.

As a result of the above Contractual Arrangements, the Group has effective control over the financial and operational policies of the PRC Operational Entities and the Target Companies and derives economic benefits from the operations of the PRC Operational Entities and the Target Companies. Accordingly, the financial results and positions of the PRC Operational Entities and the Target Companies have been consolidated into the Group since their respective dates of acquisition/establishment.

36 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY *(continued)*

(b) Controlled special purpose entity

There was one special purpose entity controlled by the Company, which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The Modern Media Employees Share Award Plan ("Modern Media Employee Share Trust") operated under Supremo Investment Inc.	Administrating and holding the Company's shares for the Share Award Scheme for the benefit of the Company's eligible employees

The Company controls a special purpose entity, Modern Media Employee Share Trust, which is set up solely for the purpose of purchasing, administrating and holding the Company's shares for the Share Award Scheme (note 27(b)). As the Company has the power to direct the relevant activities of the Modern Media Employee Share Trust and it has the ability to use its power over the Modern Media Employee Share Trust to affect its exposure to returns, the assets and liabilities of the Modern Media Employee Share Trust are included in the Group's consolidated statement of financial position and the Company's shares held by the Modern Media Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

As at 31 December 2012, the Company had contributed RMB8,805,000 (2011: RMB8,805,000) in the Modern Media Employee Share Trust for shares not yet vested and the amount was recorded as "Contributions to Modern Media Employee Share Trust" in the Company's statement of financial position.

Financial Summary

RESULTS

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	655,313	586,186	456,255	333,156	347,825
Profit before taxation	92,752	85,069	71,351	38,339	57,003
Income tax	(27,484)	(24,791)	(18,599)	(7,153)	(11,985)
Profit for the year	65,268	60,278	52,752	31,186	45,018

ASSETS AND LIABILITIES

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Total assets	595,751	552,192	415,248	327,782	301,429
Total liabilities	(175,485)	(187,717)	(148,565)	(128,485)	(136,353)
Total equity	420,266	364,475	266,683	199,297	165,076

Notes:

(1) The Company was incorporated in The Cayman Islands on 8 March 2007 and became the holding company of the companies now comprising the Group with effect from 24 August 2009 upon the completion of the Group Reorganisation as set out in the Company's prospectus dated 28 August 2009 ("Prospectus").

(2) The consolidated financial statements for the year ended 31 December 2008 have been prepared using the merger basis of accounting as if the Group had always been in existence. The net assets of the combining companies are consolidated using the existing book values form the controlling party's perspective. The figures for the year ended 31 December 2008 have been extracted from the Prospectus.

現代傳播集團
MODERN MEDIA GROUP

香港 HONG KONG

香港鰂魚涌英皇道1063號11樓1101-1103室
Suite 1101-1103, 11/F, 1063 King's Road, Quarry Bay, Hong Kong
Tel: (852) 2250 9188 Fax: (852) 2838 8745 E-mail: hk@modernmedia.com.cn

廣州 GUANGZHOU

廣州市珠江新城華夏路8號合景 國際金融廣場第15樓 郵編：510623
15/F, International Finance Place, No.8 Huaxia Road, Zhujiang New Town,
Tianhe District, Guangzhou,510623, China
Tel: (8620) 3879 1622 Fax: (8620) 3879 1623 E-mail: gz@modernmedia.com.cn

上海 SHANGHAI

上海市淮海中路300號香港新世界大廈49樓 郵編：200021
49/F, HongKong New World Tower, No.300, Middle Huaihai Road, Shanghai 200021, China
Tel: (8621) 6335 3637 Fax: (8621) 6335 3635 E-mail: sh@modernmedia.com.cn

北京 BEIJING

北京市朝陽區工體東路中國紅階甲2號5樓 郵編：100027
5/F, No.A2, China View, East Gongti Road, Chaoyang District, Beijing 100027, China
Tel: (8610) 6561 5550 Fax: (8610) 6561 0819 E-mail: bj@modernmedia.com.cn

深圳 SHENZHEN

深圳市福田區竹子林求是大廈西座29樓 郵編：518040
29/F, West Tower, Qiushi Center, Zhuzilin, Futian District, Shenzhen 518040, China
Tel: (86755) 8831 6511 Fax: (86755) 8831 6986 E-mail: sz@modernmedia.com.cn

杭州 HANGZHOU

杭州市德勝路385號銀都大廈1708室 郵編：310015
Rm. 1708, Yindu Building, No. 385, Desheng Road, Hangzhou, Zhejiang 310015, China
Tel: (86571) 8839 4938 Fax: (86571) 8839 4938

成都 CHENGDU

成都市人民南路1段86號城市之心大廈10樓M單元 郵編：610016
Unit M, 10/F, City Center Building, No.86, Branch 1, South People's Road, Chengdu 610016, China
Tel: (8628) 8620 2278 Fax: (8628) 8620 3258

南京 NANJING

南京市上海路42號 郵編：210029
No.42, Shanghai Road, Nanjing 210029, China
Tel: (8625) 8472 2750 Fax: (8625) 8472 2750

大連 DALIAN

大連市中山區武漢街73號寫字樓2301室 郵編：116001
Rm.2301, Office Building, No.73, Wuhan Street, Zhongshan District, Dalian 116001, China
Tel: (86411) 8881 2309 Fax: (86411) 8881 2309

哈爾濱 HARBIN

哈爾濱市道裡區中央大街160號天植大酒店502室 郵編：150010
Rm.502, Tianzhi Hotel, No.160, Center Street, Daoli District, Harbin 150010, China
Tel: (86451)8464 1502 Fax: (86451) 8464 1502