SUMMARY

OVERVIEW

Our business

Our Group is a media company, aspiring to be a cultural and lifestyle media platform for the elites in the greater China region, and is principally engaged in the operation of the Magazines in Hong Kong and the PRC, including the publication of, and the sale of advertising spaces in, "號外" (City Magazine) in Hong Kong and the provision of content production, consultation, management, advertising and other supporting services to, marketing and distribution of, and the sale of advertising spaces in, the PRC Magazines in the PRC, to provide integrated marketing solutions to our advertising customers.

Currently, our Group publishes "號外" (City Magazine), a magazine with a publication history of over 30 years, in Hong Kong and through the PRC Operational Entities, operates seven magazines in the PRC, namely "週末畫報" (Modern Weekly), "優家畫報" (U+ Weekly), "新視綫" (The Outlook Magazine), "汽車生活" (Auto Life), "健康時尚" (LOHAS), "生活月刊" (Life Magazine) and "大都市" (Metropolis) which has separate editions dedicated for male and female readers. Pursuant to the cooperation agreements entered into by the relevant PRC Operational Entity and the PRC Publishing Partners, we are responsible for providing content production, consultation, management, advertising and other supporting services, and in return we have obtained the exclusive rights for the sale of advertising spaces in and the distribution of the PRC Magazines. Among the Magazines, "週末畫報" (Modern Weekly) is the most successful publication in terms of the contribution of our advertising revenue and is one of a few leading nation-wide weekly magazines in the PRC. Our Group and the Magazines have obtained a number of awards and recognitions from recognised organisations. In 2009, Guangzhou Modern Information was awarded as one of the 2008 – 2009 年度中國十大最具投資合作價值傳媒產業公司 (Top 10 China Media Company Most Worth Investing and Cooperation in 2008 - 2009*) granted by 傳媒雜誌社 (Chuanmei Magazine Society*) at 2009 中國傳媒產業經營管理論壇 (China Media Product Operation and Management Forum 2009*).

We consider that the Magazines have a wide spectrum of readers with the majority of them belonging to the growing middle class in the PRC and ranging from affluent entrepreneurs and corporate decision makers to educated elites with high purchasing power and disposable income. According to 中國國家統計局 (The National Bureau of Statistics of China*), domestic household income has increased markedly in recent years. Income of the middle income group of China has increased by 11.8% and 17.4% in 2006 and 2007 respectively while the income of the highest income group has also increased by 11.5% and 14.9% in 2006 and 2007 respectively. Furthermore, population of higher education level in China has increased from less than 50.0 million in 2001 to approximately 73.2 million in 2007, i.e., from approximately 3.9% of the total population in 2001 to approximately 6.6% of the total population in 2007. With such a niche readership who aspire to high quality living standards and our platform of multi-segmented magazines portfolio, we have successfully attracted a group of eminent advertising clientele comprising internationally renowned brands of leisure and luxurious products to place advertisements in the Magazines.

We pride ourselves in the provision of quality contents to an array of diversified lifestyle magazines with international vision that provides our advertising customers, which comprise mainly international advertising agencies and brand advertisers, a comprehensive advertising platform and marketing solutions with well-defined demographic segmentation through our close monitoring in content production, artwork and photographical design, quality of printing as well as designing integrated value-added advertising services and marketing solutions. Our Directors consider that the success of our Group is attributable to, among other things, our distinctive operation philosophy and corporate culture, experienced management team in innovative publication practices, dedicated and experienced execution teams contributing creative ideas for the production of the Magazines and the provision of advertising services, well-established relationship with our advertising customers, wide distribution network and the effective marketing channels in promoting our integrated value-added advertising services and marketing solutions.

Our source of revenue

Our major source of revenue was derived from the sale of advertising spaces in the Magazines, which accounted for approximately 94.7%, 94.4%, 94.1% and 90.5% of our Gross Revenue during the Track Record Period. We also generated revenue from the circulation of the Magazines, which accounted for approximately 4.4%, 3.2%, 3.6% and 6.0% of our Gross Revenue during the Track Record Period. In recent years, our Group has been enjoying a revenue boost by implementing our clientele segmentation strategies and by introducing more comprehensive advertising services to our advertising customers. Such services include advertorial, brochures, special creative banners, brand posters and supplementary issues. During the Track Record Period, our total revenue grew from approximately RMB231.3 million in 2006 to approximately RMB347.8 million in 2008, representing a CAGR of approximately 22.7%. However, our revenue decreased by 7.8% from approximately RMB65.1 million for the three months ended 31 March 2008 to approximately RMB60.0 million for the three months ended 31 March 2009 due to the outburst of global financial turmoil in the end of 2008 which temporarily affected the promotional activities and advertising spending of our advertising customers in the first quarter of 2009. Set out below is a breakdown of our revenue during the Track Record Period:

	Years ended 31 December			**Three months ended 31 March**	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Advertising income	235,387	289,040	359,461	65,069	59,210
Circulation income	10,881	9,722	13,614	2,789	3,895
Sponsorship, event and service income	2,401	7,296	8,794	2,765	2,311
Gross Revenue	248,669	306,058	381,869	70,623	65,416
Less: Sales tax and other surcharges	(17,367)	(24,973)	(34,044)	(5,518)	(5,394)
Total revenue	231,302	281,085	347,825	65,105	60,022

SUMMARY

Leveraging on our established media operation platform in Hong Kong and the PRC, we believe that with our successful business operation model, dedication to high quality lifestyle magazines and differentiated advertising services, we are well-positioned to compete with other competitors and capture the market potential of the booming media market in the PRC. Our Group aims to strengthen our leading market position in the lifestyle magazine sector in the PRC by continuing the production of creative, literary and culturally influential magazines in the PRC with quality contents and international vision and expand the portfolio of magazines we produce in the PRC by cooperation with additional PRC Publishing Partners in the future to a niche readership and integrated value-added advertising services and marketing solutions to our advertising customers.

Recent development of the advertising industry

According to the ZenithOptimedia Report, global advertising expenditure has been contracting since the third quarter of 2008 as a result of the outburst of the global financial turmoil and is expected to shrink by 6.9% in 2009 followed by a 1.5% growth in 2010 and a 4.5% growth in 2011. Regardless of the anticipated decrease in global advertising expenditure, China's advertising market is expected to outperform most of the developed countries in the world and maintains a steady growth in the coming years. According to ZenithOptiameida, the advertising expenditure growth in China will slow down to just approximately 5.4% in 2009 compared to a decrease of 6.9% in global advertising expenditure. Moreover, the Shanghai World Expo and the 2010 FIFA World Cup South Africa are expected to stimulate demand for advertising in the coming years and it is expected that the total advertising expenditure in China will grow by 5.2% in 2010 and 8.9% in 2011.

Following the outburst of the global financial turmoil, our Directors observed that our advertising customers, including designated advertising agencies and brand advertisers, had temporarily scaled down their promotional activities and advertising spending substantially for the first quarter of 2009 compared with that of the first quarter of 2008 in view of the obscure economic conditions. Further aggregated by the advertisement patterns in the PRC as more particularly described in the paragraph headed "Our operations are subject to seasonality" in the section headed "Financial information" in this document, our Group recorded a declined turnover of approximately RMB60.0 million and a net loss of approximately RMB9.7 million for the three months ended 31 March 2009. Our Directors believe that the decrease in our customers advertising and promotional spending was transient and will likely revert to the normal level in the second half of 2009 in view of the resurgent performance in the general economy, in particular the consumer market of the PRC and the economic stimulus plans implemented or to be carried out by the PRC government. According to an analysis dated 17 July 2009 concluded by The National Bureau of Statistics of China on 社會消費品零售總額 (The Total Retail Sales of Social Consumer Goods*), the total sales volume of the social consumer goods in the PRC recorded an amount of approximately RMB5,871.1 billion for the first half of the year 2009, which represented a growth of approximately 15.0% when compared with the same period of year 2008.

In order to capture the anticipated recovery of consumer markets in the PRC, our Group further extended incentive packages to our selected advertising customers in the second quarter of the year 2009 with a view to enlarge our market share. Although there was a downward adjustment in our average selling price of advertising spaces from approximately RMB53,000 per page for the three months ended 31 March 2009 to approximately RMB49,000 per page for the three months ended 30 June 2009, we recorded an increase in the number of our advertising spaces sold from approximately

1,100 pages for the three months ended 31 March 2009 to approximately 1,600 pages for the three months ended 30 June 2009 and our unaudited advertising revenue for the three months ended 30 June 2009 increased to approximately RMB[78.2] million when compared to that of the three months ended 31 March 2009 in the amount of approximately RMB59.2 million.

Moreover, our Group recorded an improvement in operating results from net loss of approximately RMB9.7 million for the three months ended 31 March 2009 to unaudited net loss of approximately RMB[2.6] million for the three months ended 30 June 2009. In the meanwhile, our Group’s unaudited net loss for the three months ended 30 June 2009 was mainly attributable to the continuous expansion of our operational scale which led to an increase in our administrative staff costs when compared with the same for the three months ended 31 March 2009 and the recognition of loss on disposal of an associate of approximately RMB[1.5] million which was non-recurring in nature.

Apart from a decrease in the demand for leisure and luxury consumer goods, the global financial crisis also resulted in global credit tightening and the deteriorating situation exacerbates the liquidity and credit crunch. Our Directors believe that such liquidity and credit crunch has affected the availability of banking facilities and bank borrowings for the commercial sectors in the PRC. Thus, in the event that there is a request for early repayment of our outstanding bank loans by our banker and our Group cannot arrange any alternative credit facility with other financial institutions on a timely basis, it may adversely affect our Group’s cash-flow, business operation and profitability position.

Our Directors confirm that our Group has not received any notification from our banker regarding early repayment of outstanding bank borrowings or request for placement of pledges for secured bank borrowings as a result of the economic downturn since the last quarter of the year 2008. Also, as of the Latest Practicable Date, our Group had neither encountered major difficulties in securing and/or borrowing bank loan nor was charged an exceptionally high interest rate on the bank loan.

Our Directors believe that, although the timing of general recovery of the global economy is still uncertain, with the continuing improvement in the overall economy of the PRC and Hong Kong and the gradual liberalisation of the PRC’s publication industry as a result of the PRC’s membership in the World Trade Organisation, it is expected that there will be an enormous growth potential for Chinese lifestyle magazine advertising market in the PRC and Hong Kong.

The Contractual Arrangements

Under the current PRC laws, companies with foreign ownership are restricted from engaging in the publishing business in the PRC. As such, we rely on the PRC Operational Entities to conduct certain parts of our businesses in the PRC. Though none of the members in our Group have any direct equity holding in any of the PRC Operational Entities, we manage to maintain an effective control over the financial and operational policies of these PRC Operational Entities through the Contractual Arrangements (entered into among Zhuhai Technology, Mr Shao, Modern Media (HK) (where applicable) and the PRC Operational Entities on [24] August 2009) which effectively transfer the economic benefits and pass the risks associated therewith of the PRC Operational Entities to our Company, and as a result, the PRC Operational Entities have been consolidated as subsidiaries of our Company from their respective dates of acquisition or establishment by Mr. Shao and/or entities controlled by him.

During the Track Record Period, the revenue generated from the PRC Operational Entities amounted to approximately RMB183.1 million, RMB230.4 million and RMB303.2 million for each of the three years ended 31 December 2008 and RMB56.9 million for the three months ended 31 March 2009 respectively, representing approximately 79.2%, 82.0%, 87.2% and 94.8% of our total revenue for the relevant periods, respectively. Furthermore, the net profit derived from the PRC Operational Entities amounted to approximately RMB34.9 million, RMB42.2 million and RMB46.1 million, for each of the three years ended 31 December 2008, representing approximately 97.2%, 101.0% and 102.3% of our total net profit for the relevant period respectively. As some of our Group's equity-held subsidiaries recorded slight losses in 2007 and 2008, the net profit derived from the PRC Operational Entities was more than the combined net profit of our Group for each of the two years ended 31 December 2008, which was approximately RMB41.8 million and RMB45.0 million respectively. For the three months ended 31 March 2009, the net loss derived from the PRC Operational Entities amounted to approximately RMB3.6 million, representing approximately 37.0% of our net loss for the three months ended 31 March 2009.

As advised by our PRC legal adviser, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under the current PRC laws and that in the event of any breach or default by any one of Mr. Shao or the PRC Operational Entities, Zhuhai Technology can take legal actions against any one of them. However, we understand that the Contractual Arrangements do not give us as much control and security as direct legal and beneficial ownership over the PRC Operational Entities do and there is no assurance that Zhuhai Technology is able to reclaim all of the related interests in the event of any breach or default of the contractual terms by Mr. Shao or the PRC Operational Entities.

Furthermore, there can be no assurance that the interpretation of the Contractual Arrangements by our PRC legal adviser is in line with the interpretation of the PRC governmental authorities (including GAPP) and that the Contractual Arrangements (or any part thereof) will not be considered by such PRC governmental authorities and courts to be in violation of the PRC laws. In addition, there can be no assurance that GAPP or other PRC governmental authorities will not in the future interpret or issue laws, regulations or policies that result in the Contractual Arrangements being deemed to be in violation of the then prevailing PRC laws. Please refer to the paragraph headed "Contractual Arrangements" in the section headed "Business" in this document for the details of the Contractual Arrangements and the paragraph headed "We rely on the Contractual Arrangements." in the section headed "Risk factors" in this document for a discussion of the relevant risks in relation to the Contractual Arrangements.

Cooperation with the PRC Publishing Partners and the distributors

In addition to our reliance on the Contractual Arrangements, we also, to a significant extent, depend on the PRC Publishing Partners and our distributors.

Due to the limitations on the publication of magazines in the PRC under the prevailing laws and regulations in the PRC, we, through the PRC Operational Entities, rely on the PRC Publishing Partners, who are the legal publisher and owner of the relevant PRC Magazines (each of which is controlled by recognised governmental authorities or institutions of the PRC and holds the relevant Publishing Codes and holds or has the relevant licenses and rights in relation to the publication of the relevant PRC Magazines), with which Guangzhou Modern Information has entered into certain cooperation agreements to carry out our businesses in the PRC. The cooperation agreements are essential to our businesses in the PRC as we, through the PRC Operational Entities, have acquired the exclusive rights from the PRC Publishing Partners by the payment of certain prescribed fees pursuant to various cooperation agreements to sell advertising spaces in the PRC Magazines and distribute the PRC Magazines to generate our advertising and distribution revenues. Our Group, through the PRC Operational Entities, is engaged in the content production of the PRC Magazines, which include the compilation of various articles and/or data sourced from other Independent Third Parties. As such, our Group is the copyright owner of the contents as compiled, and also as the original selection and arrangement works from our Group, of the PRC Magazines. In return, we are responsible for providing content production, consultation, management, advertising and other supporting services to the PRC Publishing Partners for the publication of the relevant PRC Magazines and for all the costs associated with the production of the PRC Magazines, which include production staff costs, printing costs and content production costs. Furthermore, under the relevant PRC laws, if there are any infringement of any intellectual property rights arising out of, or any defamation actions over, the advertising and non-advertising contents of the PRC Magazines, the relevant PRC Publishing Partners are liable for such actions; and Guangzhou Modern Information may bear the legal liabilities for those content materials that it has provided to the PRC Publishing Partners and which cause the infringement of intellectual property rights or any defamation actions. In addition, our Group may be subject to administrative penalties for violation of the relevant PRC laws due to the nature and content of the advertisements contained in the PRC Magazines. Please refer to the paragraph headed "Cooperation agreements with the PRC Publishing Partners" in the section headed "Business" in this document for the details of the cooperation agreements we entered into with the PRC Publishing Partners and the paragraph headed "We rely on the PRC Publishing Partners." in the section headed "Risk factors" in this document for the relevant risks.

Currently, we rely on over [200] distributors in the PRC to distribute the PRC Magazines and [one] independent distributor in Hong Kong to distribute "號外" (City Magazine) in Hong Kong (and less significantly, other places outside the PRC). All of our distributors are Independent Third Parties and are responsible for distributing the Magazines to their respective owned and/or managed retail outlets including, among other things, points of sales at airports and subways, book shops, supermarkets, hotels, convenience stores, newsstands and gas stations, covering Hong Kong and more than [20] major cities in the PRC (including Shanghai, Guangzhou, Beijing, Shenzhen, Hangzhou, Chengdu, Chongqing, Nanjing, Tianjin, Shenyang, Wuhan, Qingdao and Xi'an) for sale to our end readers.

COMPETITIVE STRENGTHS

Our Directors believe that our Group is well positioned in the fast-growing and yet competitive Chinese-language lifestyle magazines market in the PRC, attributing to the following key competitive strengths which distinguish us from our competitors:

- Distinctive corporate philosophy and culture

- An experienced management team with international exposure and local knowledge that leads our Group to innovative directions

- Dedicated and experienced execution teams contributing creative ideas for the production of the Magazines and the provision of advertising services and marketing solutions

- Leading market position in the nation-wide lifestyle magazines sector

- Strong brand recognition of "Modern Media" that is synonymous with the leading media group in lifestyle magazines in the PRC
- A wide distribution network covering major cities in the PRC that supports our broad customer base and attracts advertising customers
- A unique media platform
- Provision of integrated value-added advertising services and marketing solutions for our advertising customers

For further details of our competitive strengths, please see the paragraph headed "Competitive strengths" in the section headed "Business" in this document.

BUSINESS STRATEGIES

Our Group strives to become the leading media group in the PRC by the provision of an array of high quality Chinese-language lifestyle magazines with international vision that provides our advertising customers with a comprehensive advertising platform and marketing solutions with well-defined demographic segmentation. We will continue to seek opportunities to realise sustainable growth of our business by capturing the anticipated market potential in the Chinese-language lifestyle magazines market and advertising business in the greater China region. In order to achieve these business objectives, we intend to implement the following strategies:

- To expand our existing weekly and monthly magazines portfolio platform
- To broaden our revenue streams by increasing our effort in the promotion of magazines and media platform which excel in the provision of integrated value-added advertising services and marketing solutions
- To expand our geographical coverage to penetrate further into regional distribution networks
- To increase efficiency of cost and quality control

For further details of our business strategies, please see the paragraph headed "Business strategies" in the section headed "Business" in this document.

TRADING RECORD DURING THE TRACK RECORD PERIOD

The following table summarises our combined results for the Track Record Period which are extracted from the accountants' report set out in Appendix I to this document, and also illustrates certain items in our combined income statement expressed as a percentage of turnover for the Track Record Period. For further information regarding the basis of presentation of our Group's financial information, please refer to the accountants' report in Appendix I to this document.

	Years ended 31 December						**Three months ended 31 March**			
	2006		**2007**		**2008**		**2008**		**2009**	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000 (unaudited)*	*% of turnover*	*RMB'000*	*% of turnover*
Turnover	231,302	100.0	281,085	100.0	347,825	100.0	65,105	100.0	60,022	100.0
Cost of sales	(107,114)	(46.3)	(117,443)	(41.8)	(142,839)	(41.1)	(30,596)	(47.0)	(36,325)	(60.5)
Gross profit	124,188	53.7	163,642	58.2	204,986	58.9	34,509	53.0	23,697	39.5
Other revenue	75	0.0	355	0.1	1,743	0.5	48	0.1	2,470	4.1
Other net income/(loss)	79	0.0	(135)	(0.0)	(514)	(0.1)	(125)	(0.2)	16	0.0
Selling and distribution expenses	(35,918)	(15.5)	(51,502)	(18.3)	(72,390)	(20.8)	(18,517)	(28.4)	(18,117)	(30.2)
Administrative and other operating expenses	(46,937)	(20.3)	(62,916)	(22.4)	(77,393)	(22.3)	(18,703)	(28.7)	(18,771)	(31.3)
Profit/(loss) from operations	41,487	17.9	49,444	17.6	56,432	16.2	(2,788)	(4.2)	(10,705)	(17.9)
Finance costs	(51)	(0.0)	—	0.0	—	—	—	0.0	(171)	(0.3)
Share of profit/(loss) of an associate	—	0.0	498	0.2	861	0.2	(654)	(1.0)	(57)	(0.1)
Share of loss of a jointly controlled entity	—	0.0	(382)	(0.1)	(290)	(0.1)	(196)	(0.3)	(26)	(0.0)
Profit/(loss) before taxation	41,436	17.9	49,560	17.7	57,003	16.3	(3,638)	(5.5)	(10,959)	(18.3)
Income tax	(5,486)	(2.4)	(7,760)	(2.8)	(11,985)	(3.4)	(294)	(0.5)	1,242	2.1
Profit/(loss) for the year/period	35,950	15.5	41,800	14.9	45,018	12.9	(3,932)	(6.0)	(9,717)	(16.2)
Profit/(loss) attributable to equity shareholders	35,950	15.5	41,800	14.9	45,018	12.9	(3,932)	(6.0)	(9,717)	(16.2)

DIVIDEND POLICY

Our Group did not declare or pay any dividend in respect of the three financial years ended 31 December 2008 and the three months ended 31 March 2009.

[On 10 August 2009, our PRC Operational Entity declared special interim dividends of RMB[82.0] million to the controlling shareholder and he will use part of the dividend to repay his amount due to our Group. The special interim dividends is expected to be paid before the [●] Date. Prospective investors in the [●] should note that they will not be entitled to any such special interim dividends.]

The amount of any dividends to be declared in the future will depend on, among others, our Group's results of operations, available cashflows and financial condition, operating and capital requirements, the amount of distributable profits based on the IFRSs, the Articles of Association, the Companies Law, applicable laws and regulations and any other factors that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and agreements that our Group may enter into in the future.

Subject to the factors described above, we currently intend to recommend at the next annual general meeting of our Company an annual dividend of approximately [30]% of our net profit available for distribution to our Shareholders for the period beginning from the [●] Date and ending on 31 December 2009. The aforementioned special interim dividends should not be viewed as an indication of the amount of dividends that our Company may declare or pay in the future.

RISK FACTORS

We consider that there are certain risks involved in our business and operations. These risks are set out in the section headed "Risk factors" in this document, the headings of which are as follows:

Risks relating to our business:

- We rely on the Contractual Arrangements.
- We rely on the PRC Publishing Partners.
- We rely on certain key management personnel and magazine production and marketing teams.
- We rely on a small number of independent printers.
- We rely on independent distributors.
- We rely on various licences granted by other institutions or entities for reproducing copyright protected materials.
- Our results of operations may be affected by advertising trends, economic conditions and increasing competition in the media advertising industry in the PRC and Hong Kong.
- We rely on intellectual property rights protection.
- We may not be able to sustain our business growth that we experienced during the three years ended 31 December 2008.

- We recorded a decline in our operating profit margin during the three years ended 31 December 2008 and a decline in revenue during the three months ended 31 March 2009.
- We may have potential litigation.
- We may not be able to implement our strategies and future plans successfully.
- Our operations are subject to seasonality.
- Our operations are subject to stringent regulatory framework.
- We generally do not enter into long-term sales contracts with our advertising customers.
- Our leased properties in the PRC may be subject to legal irregularities.

Risks associated with our industry:

- We are subject to PRC media industry regulations and policies.
- We face competition and are subject to price war.
- Potential increase in printing costs may affect our profitability.

Risks associated with the PRC:

- Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.
- Our results and financial position are highly susceptible to changes in the PRC's political, economic and social conditions as our revenue is currently mainly derived from our operations in the PRC.
- There is no assurance that we will continue to receive the preferential tax treatment currently enjoyed by some members of our Group.
- The outbreak of any severe communicable diseases in the PRC (including Hong Kong), if uncontrolled, could affect the financial performance and prospects of our Group.
- Restrictions imposed by the PRC government on currency conversion and exchange rate fluctuation may limit our ability to remit dividends and affect our business.
- Payment of, and tax exemptions on, dividends are subject to restriction under the PRC laws.
- Enforcement of judgments obtained from non-PRC courts may be difficult.
- PRC regulations may limit our ability to make additional capital contributions to our subsidiaries in the PRC or the PRC Operational Entities.
- The new PRC Labour Contract Law may have an impact on our Group's operations and our labor costs may increase as we may be liable to fines and penalties for any material breach of the new law.