RISK FACTORS

You should consider carefully all the information set forth in this document and, in particular, should consider the following risks. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group.

This document contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this document. Factors that could cause or contribute to such differences include those discussed below.

RISKS RELATING TO OUR BUSINESS

We rely on 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 legal ownership 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. Details of, and the rationale for, the Contractual Arrangements are set forth in the paragraph headed ''Contractual Arrangements'' in the section headed "Business" in this document.

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 slightly 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.

We have been advised by our PRC legal adviser that 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. We may have to rely on the PRC legal system to enforce these arrangements, which remedies may be less effective than those in other developed jurisdictions. In any event, any legal proceedings could result in the disruption of our business in the PRC and result in substantial legal costs to us, irrespective of whether the results are satisfactory to us or not.

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. In particular, any future acquisition of rights, benefits or assets of or equity interests in the PRC Operational Entities pursuant to the Contractual Arrangements will be subject to the laws and regulations then applicable. In these cases, each of the agreements constituting the Contractual Arrangements will have to be revoked and the transactions contemplated under these agreements shall not continue. Moreover, to the best knowledge of the Directors, if the agreements constituting the Contractual Arrangement are considered to be in breach of any new laws, regulations or rules in the future, the relevant PRC regulatory authorities would have broad discretion in dealing with such breach, including: (i) discontinuing or restricting the operations of our Group; (ii) requiring our Group to restructure the relevant ownership structure or operations; or (iii) taking regulatory or enforcement actions, in particular in the form of imposing economic penalties, that could adversely affect the financial condition and business of our Group. All of these possible actions by the relevant PRC regulatory authorities would inevitably terminate the flow of economic benefits from the PRC Operational Entities to our Group as stipulated under the Contractual Arrangements (details of which are more particularly described in the paragraph headed "Contractual Arrangements" in the section headed "Business" in this document). During the Track Record Period, the revenue and the net profit derived from the PRC Operational Entities accounted for a substantial portion of our total revenue and the net profit for the relevant periods, respectively. Accordingly, we may have to rationalise the operations of the PRC Operational Entities and our subsidiaries in the PRC under the Contractual Arrangements or our organisational and/or operational structure in the PRC if there is any such determination that the existing Contractual Arrangements are not in compliance with any new interpretations or laws, regulations, rules or policies. Such rationalisation may result in the diversion of management attention and the incurrence of substantial operating and production costs which could adversely affect the business, financial condition or results of operations of our Group.

We rely on the PRC Publishing Partners.

Due to the limitations on the publication of magazines in the PRC under the prevailing laws and regulations in the PRC as discussed in the section headed "Regulatory overview" in this document, we, through the PRC Operational Entities, rely on the PRC Publishing Partners (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. Details of these cooperation agreements are set forth in the paragraph headed "Cooperation agreements with the PRC Publishing Partners" in the section headed ''Business'' in this document.

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. In addition, these agreements are of varying terms of around six to 20 years (with the earliest expiring in May 2015 and the latest in December 2028), and they are subject to renewal by mutual agreement. If any of the PRC Publishing Partners fails to comply with, prematurely terminate, breach, or refuse to renew, the relevant cooperation agreements, we may not be able to find a substitute entity which has the requisite approvals, licenses and rights to publish the relevant PRC Magazine or enter into an agreement with such replacement partner on substantially similar terms and commercially acceptable terms and in a timely manner upon the termination or expiration of such cooperation agreements and thus our businesses, financial condition and results of operations in the PRC could be materially and adversely affected.

We rely on certain key management personnel and magazine production and marketing teams.

Our Group's success is, to a significant extent, attributable to the management skill and solid experience in media sector of our management personnel. Mr. Shao, the founder and chairman of our Group and an executive Director, together with our other executive Directors, have been part of the existing senior management team since our inception and play a significant role in our Group's day-to-day operations. Each of our executive Directors has entered into a service contract with our Company for an initial fixed term of [three] years which will commence on 1 September 2009. Should any of these members of our Group's senior management leave our Group and we fail to find suitable replacement, our Group's business may be adversely affected.

In addition, we value the contribution of our teams of content production staff and journalists whose market knowledge and experience, and innovative and insightful reporting and presentation skills, which enhance the attractiveness of the contents of the Magazines that ultimately attract readers with a desirable readership profile on which the demand for advertising spaces in the Magazines depends. On the back of such desirable demand for advertising spaces in the Magazines, our skilled marketing staff with in-depth market knowledge and experience in the advertising industry offer integrated value-added advertising services and marketing services solutions to our advertising customers.

As always, we face keen competition for skilled content production and marketing personnel with significant in-depth market knowledge and experience in the media and advertising sector. We may need to offer better remuneration package and other benefits in order to attract and retain key personnel in the future and we cannot assure you that we will be able to retain such employees. If the existing skilled content production and marketing personnel leave our Group and we encounter difficulties in recruiting or retaining competent personnel to manage our business operations, our operations and businesses may be adversely affected.

We rely on a small number of independent printers.

A major component of our cost of sales during the Track Record Period is the printing costs of the Magazines. For each of the three years ended 31 December 2008 and the three months ended 31

March 2009, our total printing costs amounted to approximately RMB58.3 million, RMB57.4 million, RMB72.0 million and RMB18.5 million, respectively, representing approximately 54.4%, 48.9%, 50.4% and 51.0% of our total cost of sales during the respective years. During the Track Record Period, the printing of the Magazines was mainly handled by a few printers, which are Independent Third Parties, in the PRC and Hong Kong. For each of the three years ended 31 December 2008 and the three months ended 31 March 2009, the printing cost incurred by us to the three largest printers of our Group accounted for approximately 79.3%, 96.0%, 99.8% and 99.5%, respectively of our printing costs while the printing cost as incurred by us to the largest printer of our Group accounted for approximately 46.5%, 73.7%, 76.4% and 80.8%, respectively of our printing costs during the same year.

As at the Latest Practicable Date, the printing of "號外" (City Magazine) was handled by a printing company, which is an Independent Third Party, in Hong Kong, while the printing of the PRC Magazines, as arranged by Guangzhou Modern Information pursuant to the cooperation agreements between Guangzhou Modern Information and the PRC Publishing Partners, was handled by two printers, which are also Independent Third Parties, in the PRC. The printing agreements with the abovementioned printers are of varying terms ranging from one year to not more than three years.

There is no assurance that our existing printers will not change the current printing fees scale offered to us for the printing of the Magazines in the future. Should there be any disruption in the production process of any of these printers or any increase in the printing fees and costs charged to our Group by any of these printers or any termination of the provision of the printing services by any of these printers and replacement printers cannot be found in a timely manner, our business and operations may be adversely affected. In addition, if the substitute printers are not willing to offer the same or more favourable terms as we currently accept, our printing costs may be higher, thereby adversely affect our financial results.

We rely on independent distributors.

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. The terms of the distribution agreements are negotiated on an arm's length basis between us and the distributors. Should the terms of the distribution agreements with any significant distributor or a significant number of distributors be terminated, breached or adversely varied, we may be unable to find appropriate replacement distributors in a timely manner and our businesses and operations may be adversely affected.

We rely on various licences granted by other institutions or entities for reproducing copyright protected materials.

We rely, although not heavily, on licences granted by other institutions or entities for reproducing certain contents, text, photos, pictures and the like, in the Magazines in the ordinary course of our business. During the Track Record Period, the amounts of licensing fee paid for such licensing materials amounted to approximately RMB1.2 million, RMB1.4 million, RMB1.6 million and RMB0.3

million respectively. The prices of such licensed materials were pre-determined by the relevant providers. If we violate the terms of these licensing agreements in any manner, we could be held liable by the licensors for such violations and could be required to, among other things, compensate and indemnify the licensors for any losses suffered by them and cease publication of the relevant Magazine. Our Directors consider that as the terms of each of these licensing agreements are different and the circumstances leading to the violations may vary from case to case, the potential liability to the respective licensors under the respective licensing agreements will depend on the extent of losses proved to be suffered by the licensors. In the event that any licensing agreements are terminated or our Group is held liable by its licensors for violations of the terms of these licensing agreements, our business, financial condition and results of operations could be adversely affected.

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.

Our major source of revenue is derived from the sale of advertising spaces in the Magazines in the PRC and Hong Kong. For each of the three years ended 31 December 2008 and the three months ended 31 March 2009, our advertising revenue accounted for approximately 94.7%, 94.4%, 94.1% and 90.5% of our Gross Revenue of the respective years. Advertising revenues are cyclical and dependent upon general economic conditions, details of which have been set out in the paragraph headed "Change of overall economic conditions in the PRC, Hong Kong and globally which affect the advertising and marketing expenditure and budgets of our brand advertising customers" in the section headed "Financial information" in this document. From the observation of our Directors, there is a positive correlation between the decrease in advertising revenue and the general economic downturns as well as regional and local economic recessions. Our ability to generate advertising revenue is dependent, in part, on the level of budgets by our advertising customers, which is affected by a number of factors beyond our control, including general economic conditions, shifts in consumer purchase patterns and changes in the retail environment.

Apart from that, competition in the market from other print media, as well as from new and other types of media, could be fierce. There are a large variety of magazines and other media that are already competing with us for advertising sales. Furthermore, an increase in the variety and availability of other forms of advertising media such as television, radio, internet websites and outdoor media may increase competition of the media advertising industry. While our Directors believe our strengths and market position have enabled us to compete with other print media and other forms of advertising media so far, we cannot give any assurance that we will be able to continue to do so as effectively in the future.

In the event of any adverse changes in the global economic developments, especially in the PRC and Hong Kong that consequently result in the tightening of advertising budget of our advertising customers and ultimately, the decrease in demand for the Magazines; or any reallocation of our customers' advertising expenditure or budgets to other print media competitors, other forms of existing or new forms of advertising, our future growth, financial results and profitability may be materially and adversely affected.

We rely on intellectual property rights protection.

In the course of conducting our business, we and the PRC Publishing Partners, as the publishers, rely on the protection of our intellectual property rights and the non-infringement of those belonging to others. We and the PRC Publishing Partners may not be able to protect our own rights or could even be found liable for having infringed third parties' rights, which might include, among others, intellectual property rights.

We regard intellectual property rights such as copyright and trademarks that we use as important to the success of our businesses, and any unauthorised use of such intellectual property rights by third parties may adversely affect our businesses and reputation. In this connection, we rely on the protection of the intellectual property laws and contractual agreements with our employees, customers, the PRC Publishing Partners, business partners and others to protect such intellectual property rights. Despite precautions taken by us, it may be possible for third parties to infringe on our intellectual property rights by copying or otherwise obtaining and using our intellectual property, including text, typography, photograph and design layout. Infringement also extends to the use of the publishing titles of the Magazines without authorisation despite there being trademark registrations for some of the Magazines. During the Track Record Period, we circulated the PRC Magazines in the PRC using their title names since their respective establishment and/or commencement of the cooperation agreements between the PRC Publishing Partners and us. As at the Latest Practicable Date, the title name of "號外 City Magazine" was duly registered in Hong Kong, and the trademarks 周末画报, 新视线, 优家 You Family, 优家画报U+, AutoLife 汽车生活, LIFEMAGAZINE, Lifestyle Of Health And Sustainability and O were still pending registration in the PRC. In addition, we had not obtained trademark registration in the PRC for LOHAS, 生活 and AutoLife 汽车生活 as similar trademarks in respect of LOHAS are either currently under application for registration by a third party, or had been registered by another party under the category of periodicals, a trademark similar to 生活 is currently under application for registration by a third party, and a trademark similar to AutoLife 汽车生活 had been registered by another party although under different product categories. As such, we do not have the exclusive rights to use such marks as registered trademarks in the PRC. The use of the same trademarks in the same or similar commodities without the consent from the holders of registered trademarks may be regarded as an infringement of a registered trademark, and the holders of the registered trademark are entitled to petition to the court and request to terminate the infringement actions. As the title names are important to our continuous development of the PRC market, any significant infringement of our Group's brand or trademarks could have a material adverse effect on our Group's business. Please refer to the paragraph headed "Intellectual property rights" in the section headed "Business" in this document for further details.

In addition, as the PRC Publishing Partners have the final editorial right over the contents of the PRC Magazines, there can be no assurance that any steps taken by the PRC Operational Entities will successfully prevent misappropriation or infringement of the relevant intellectual property rights. Should we fail to protect or be unable to assert any rights to these intellectual property rights, there might be an adverse impact on our marketing plans and business.

Should our Group be found liable for having infringed third parties' rights including, among others, intellectual property rights, we could be exposed to liabilities including substantial monetary damages and other sanctions. Such sanctions may include the loss of the right of our Group to source all or some of the contents that we license, or a loss of our right to engage in all or part of our business on a temporary or permanent basis. As at the Latest Practicable Date, our Directors were not aware of any infringement of any third party's rights by our Group (including the PRC Operational Entities) or by the PRC Publishing Partners. In addition, so far as our Directors are aware, our Group or the PRC Publishing Partners were not involved in any proceedings in respect of, and had not received any notice of any claims of infringement of, any intellectual property rights of any third parties or our Group that may be threatened or pending, in which we or the PRC Publishing Partners may be involved whether as claimant or respondent as at the Latest Practicable Date.

We may not be able to sustain our business growth that we experienced during the three years ended 31 December 2008.

Our businesses expanded continuously during the three years ended 31 December 2008 and we aim at continuing such expansion in the future. Our turnover increased from approximately RMB231.3

million for the year ended 31 December 2006 to approximately RMB347.8 million for the year ended 31 December 2008, representing a CAGR of approximately 22.7%. Our gross profit increased from approximately RMB124.2 million for the year ended 31 December 2006 to approximately RMB205.0 million for the year ended 31 December 2008, representing a CAGR of approximately 28.5%. Moreover, our profit for the year also significantly increased from approximately RMB36.0 million for the year ended 31 December 2006 to approximately RMB45.0 million for the year ended 31 December 2008, representing a CAGR of approximately 11.8%. In order to sustain such growth, we would need to implement our business plans effectively, maintain experienced content production and marketing teams, manage our costs effectively and exercise adequate control and reporting systems in a timely manner. However, there is no assurance that we will continue to maintain such business growth in the future.

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.

During the three years ended 31 December 2008, we recorded an operating profit of approximately RMB41.5 million, RMB49.4 million and RMB56.4 million respectively, representing an operating profit margin of approximately 17.9%, 17.6%, 16.2% respectively. The decline in our operating profit margin during such period was mainly due to the increase in our selling and distribution expenses and administrative and other operating expenses as a result of launching new magazines during the Track Record Period as detailed under the paragraphs headed “Year-to-year analysis of our trading record” in the section headed “Financial information” in this document. There is no assurance that we will be able to control the increase of such expenses in order to improve or prevent a further decline in our operating margin in the future.

The global financial turmoil at the end of 2008 has adversely affected the economy of the US, European countries and the PRC. It has also highlighted a limitation of the ability of any enterprise in generating operating profit where circumstances have changed radically. 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 this section below, 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 expected 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. However, there is no assurance that the general economy of the PRC will not further deteriorate such that the operations and the financial performance of our Group will not be materially affected.

We may have potential litigation.

The nature of our businesses exposes us to the risk of litigation claims from, among others, parties whose activities are described in the Magazines and who may perceive that references to them in the Magazines are damaging to their reputation. Moreover, civil claims may be filed against us for fraud, defamation, negligence, copyright or trademark infringement or other violations due to the nature and content of the information or articles contained in the Magazines. No assurance can be given, however, that any claims and actions will not be initiated to arise out of our business in the future. Expenses of litigation, possible losses from lawsuits and delays in proceedings in respect of outstanding and possible future claims may have a material adverse effect on the operations and the financial performance of our Group in the future. We currently [do not] maintain any insurance coverage on contingent liabilities arising out of such claims. [As at the Latest Practicable Date, our Directors were not aware of any material claim against our Group.]

We may not be able to implement our strategies and future plans successfully.

We set out our business strategies in the paragraph headed "Business strategies" in the section headed ''Business'' in this document and also our future plans in the section headed "[●]" in this document. The successful implementation of these strategies and plans depends on a number of factors including, among other things, changes in the PRC media and advertising markets, the availability of funds, competition, government policies and our ability to retain and recruit competent employees. Some of these factors are beyond our control and by nature, are subject to uncertainty.

There is no assurance that our strategies and future plans can be implemented successfully. Any failure or delay in the implementation of any or all of these strategies and plans may have a material adverse effect on our profitability and prospects.

Our operations are subject to seasonality.

To the best knowledge of our Directors, advertisement expenditures in the PRC traditionally demonstrated only a mild seasonal fluctuation, with generally higher demand for advertisements and hence more advertising expenditures in the second half of each year. This is mainly due to the fact that advertising customers tend to expand their advertising campaigns and increase advertising expenditures in the second half of each year to boost sales performance in order to meet their annual sales targets. Our Directors also consider that our circulation revenue and advertising revenue are sensitive to local customer spending pattern as our advertising customers are likely to place advertisements according to such seasonal shopping or spending patterns. Also, the Chinese New Year holidays in the first half of each year are the traditional slack season for magazines industry as advertising customers tend to withhold and avoid launching large-scale printed advertisements in magazines as readers traditionally leave the cities in which they work and go back to their home towns for festival celebration. As a result, our Group generally records higher revenue in the second half as compared to the first half of each year. In general, our revenue generated in the first half of the year accounted for approximately [40]% while the revenue generated in the second half of the year accounted for approximately [60]% of our total revenue, respectively. Accordingly, any adverse trends in seasonal shopping or spending pattern and other factors which unexpectedly shift the timing of holidays, such as infectious disease outbreaks, unpredictable weather conditions or events in the PRC or Hong Kong, may affect the operational results of our Group.

Our operations are subject to stringent regulatory framework.

As disclosed in the section headed "Regulatory overview" in this document, the publication and distribution of magazines in Hong Kong are governed by various statutory provisions and common law in Hong Kong. In addition, our operations in the PRC will also be subject to the legal regime of the PRC as more particularly set out in the section headed "Regulatory overview" in this document.

Although we have used our best endeavours to be in full compliance with all applicable legislations and regulations, there is no guarantee that we will continue to be able to do so in the future. Contravention of such laws and regulations may expose our Group and/or our Directors to criminal and civil liabilities including penalties, fines, damages and other sanctions in Hong Kong or the PRC in which our Group operates, sources or markets for the sourcing, provision, delivery or transmission of regulated or prohibited information. In May 2007, due to the arrangement for the publication of an advertisement that is not allowed under the relevant laws and regulations in the PRC, Shanghai Gezhi, being one of the PRC Operational Entities, was imposed of administrative penalties by Shanghai Huangpu branch of the SAIC. Such penalties included the termination of the illegal advertisement, the confiscation of illegal gains of RMB5,000 and the imposition of a fine of RMB5,000. Further, any amendment to the existing legislations may have an adverse impact on our operations.

We generally do not enter into long-term sales contracts with our advertising customers.

Our five largest advertising customers accounted for collectively 32.2%, 29.8%, 32.5% and 36.7%, respectively, of our Gross Revenue for each of the three years ended 31 December 2008 and the three months ended 31 March 2009. Consistent with common practice in the markets in which we operate, and due to factors such as fluctuations in price and customer spending patterns in the media industry as well as our advertising customers' need for flexibility in the allocation of advertising expenditure or budgets and marketing strategies, we generally do not enter into long-term sales contracts with advertising customers. As we do not enter into long-term contracts with our largest advertising customers, there can be no assurance that we will maintain or increase our advertising spaces sales to these advertising customers or other large advertising customers at current levels or at all. Any loss to other print media competitors of a significant portion of our current advertising spaces sales to these major advertising customers could have a material adverse effect on our business, financial condition and results of operations.

Our leased properties in the PRC may be subject to legal irregularities.

As at the Latest Practicable Date, we as tenant leased [seven] properties which were used as car parking space, office, staff dormitory and retail shop, details of which are set out in nos. [10, 11, 13, 14, 17, 18 and 19] in the section headed "Group II — Property interests rented by the Group in the PRC" in Appendix III to this document. The lessors of these leased properties have not provided us with the relevant title certificates or documents evidencing that these lessors have the requisite titles or rights to lease the properties to us. The validity of our leases in respect of these properties may be subject to legal challenge. We cannot assure that no third party will seek to assert their ownership rights against these lessors or challenge these leases in the future.

In addition, some of the tenancy agreements in respect of the properties we leased in the PRC which were used as office, warehouse, staff dormitory, car parking space and shop had not been registered with the relevant PRC authority during the Track Record Period. As advised by our PRC legal adviser, the non-registration during the term of the tenancy would not affect the validity of the tenancy agreements. As soon as we had been advised of the issue of non-registration of the tenancy agreements in respect of these leased properties, we used our best efforts in negotiating with the relevant landlords to rectify these defaults. Through our efforts, the tenancy agreement in respect of the property we leased in Zhuhai was duly registered in July 2009. While we will use our best endeavours to procure the landlords of other properties (details of which are set out in nos. [3, 5 — 19] in the section headed "Group II — Property interests rented by the Group in the PRC" in Appendix III to this document) to attend the required registration of the relevant tenancy agreements, there is no guarantee that these landlords would act accordingly.

Furthermore, in respect of the property we leased in Zhuhai, the PRC (details of which are set out in no. 2 in the section headed "Group II — Property interests rented by the Group in the PRC" in Appendix III to this document) in which we used as office pursuant to the tenancy agreement entered into with the relevant landlord, such use is not in strict compliance with the use designated by the title documents of the property (i.e., industrial purpose).

As such, our Group may be evicted from the above properties for any of the above reasons and hence our Group's business operations carried out in the above properties may be disrupted if we are to relocate to replacement premises. Our Directors consider that these properties are not crucial to our Group's operations as in the PRC are mainly used as offices for administrative work and work places of our regional distribution staff, storage, staff dormitory and car parking spaces, we foresee no major difficulties in finding suitable alternative premises in substitution for such leased premises in the event that we are being requested to evict from such premises. The Controlling Shareholder has undertaken to indemnify our Group against any damages, losses or liabilities which are or become payable by any members of our Group as a result of any title defects of the property of our Group after the [●], particulars of which are set out in the paragraph headed "Estate duty, tax and other indemnities" in Appendix V to this document.

RISKS ASSOCIATED WITH OUR INDUSTRY

We are subject to PRC media industry regulations and policies.

As we operate a substantial portion of our business in the PRC through the PRC Operational Entities, we are subject to a number of regulations and restrictions, for example, foreign ownership restrictions on holders of the Publishing Code for publication of magazines or periodicals which govern the media industry in the PRC. In compliance with such, we could not practically acquire any equity interest in the PRC Publishing Partners nor apply for the relevant Publishing Code for the publication of magazines or periodicals on our own. We have no assurance that the legal and regulatory restrictions in the PRC will be lifted soon or at all or that there will not be further restrictions and requirements imposed or that we will be able to obtain special approvals or exemptions from such restrictions or requirements. These not only restrict our Group's present operations, but will also restrict our Group's proposed future developments in the PRC. Accordingly, our prospects and profitability could be adversely affected by these limitations.

We understand that the PRC government is reportedly reconsidering various regulations relating to the media and content businesses. As a result of this process, there may be a change of policy towards media and content businesses. There is no assurance that the business of our Group in the PRC and its arrangements with the PRC Operational Entities and its cooperation agreements with the PRC Publishing Partners will not be materially and adversely affected by such change of policy.

We face competition and are subject to price war.

The publication and advertising industries in both Hong Kong and the PRC are highly competitive. We face existing and potential competition from various local and foreign magazine publishers and other print media, as well as from new and other types of media, in particular the

Internet, especially in our business in Hong Kong where there is no significant entry barrier to the publishing business. In the PRC, notwithstanding the prohibition in the PRC on investment by foreign investors in the publication industry, domestic investors may establish a periodical publication unit as long as they meet the relevant requirements and satisfy such conditions as required by the PRC laws. Moreover, our Directors consider that competition of the advertising industry is further intensified due to the growing popularisation of the Internet. Over the last decade, the Internet has become one of the most popular vehicles facilitating a variety of communication and information-sharing tasks worldwide. Its growing popularity as a new medium of communication has resulted in changes in use of traditional media. As a new medium the Internet survives, grows, competes, and prospers by providing utility or gratification to consumers and it may have effects on existing media by providing new solutions to old needs or to more contemporary needs. According to the ZenithOptimedia Report, online advertising is by far the fastest-growing medium driven by the rapidly growing internet penetration. Share of online advertising expenditure in the PRC significantly increased from approximately 2.0% in 2003 to approximately 13.6% in [2008] while that for printed media decreased from approximately 41.3% in 2003 to approximately 26.1% in 2008. ZenithOptimedia *(note 1)* also anticipates that the Internet will surpass advertising activities in outdoor and newspapers and become the second-largest advertising mediums in China by 2011 after television and account for approximately 18.3% of total advertising expenditure in 2011 while the share of printed media will further decrease to approximately 19.1% in 2011.

Among all factors relating to competition, pricing is one of the key factors, significantly affecting the performance of any magazines and the sales of advertising spaces in these magazines in any given market. We believe that it is possible for the management of any magazine group to reduce the price of a magazine with the intention of increasing circulation within a short period of time and gaining a larger market share, or depressing circulation of competing magazines and thereby attracting demand for the advertising spaces in the magazines. Any such price war would result in reduced margins or loss of market share of the Magazines and would adversely affect the profitability of our Group, in terms of the circulation revenue and advertising profits stream.

Should we fail to compete with other magazine publishers and advertising companies by maintaining our competitive advantages or responding rapidly to a fast changing business environment and readers' preferences, our operations could be adversely affected. Any increase in competition can adversely affect our market share, which may lead to price reductions and an increase in our spending on marketing activities. Any of these events could have a material adverse effect on our financial condition, operations and prospects.

Potential increase in printing costs may affect our profitability.

Paper is the essential material for the production of the Magazines. Pursuant to the printing agreements we entered into with our printers in Hong Kong and the PRC for the printing of the Magazines, printing costs include the cost of paper, which is determined according to the prevailing market price at the time of entering into the relevant printing agreement. However, in the event that the cost of paper increases by more than 5% from the predetermined cost, we are liable to reimburse the printers for the additional costs in excess of such 5% increment. During the Track Record Period, our printing costs amounted to approximately RMB58.3 million, RMB57.4 million, RMB72.0 million and RMB18.5 million respectively. While we did not receive any request from our existing printers for increasing the printing price offered in the agreements despite the fluctuation of paper prices during the Track Record Period, our Directors estimate that, in the event that our existing printers request us to reimburse them the additional paper costs in excess of 5% increase in paper price which consequently leads to the increase in our printing costs, assuming all other factors remain constant, for every 1% upward increment in our printing costs during the Track Record Period, our profits before tax would have been decreased by approximately RMB5.8 million, RMB5.7 million and RMB7.2 million respectively for each of the three years ended 31 December 2008 and our loss before tax for the three months ended 31 March 2009 would has been increased by approximately RMB[185,000]. In the event of any substantial increase in the price of paper in the future which consequently leads to the increase in the printing price offered by our printers, the profitability of our Group may be adversely affected since there is no guarantee that our Group can pass on all or part of the increased costs to our advertising customers and/or readers.

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.

The PRC legal system is based on the PRC constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still subject to policy changes. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not have an adverse impact on our business or prospects.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and unlike other common law jurisdiction, such as Hong Kong decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift or equitable enforcement of the laws in the PRC, or obtain enforcement of judgment by a court of another jurisdiction.

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.

Since 1978, the PRC government has undertaken various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This refinement and adjustment process may consequently have a material impact on our operations in the PRC or a material adverse impact on our financial performance. Our results and financial position may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC's government or changes in laws, regulations or the interpretation or implementation thereof.

There is no assurance that we will continue to receive the preferential tax treatment currently enjoyed by some members of our Group.

Prior to the EIT Law which became effective on 1 January 2008, EIT on enterprise established in the special economic zones of the PRC shall be levied at the rate of 15%. Our Group's operations established in Zhuhai and Shenzhen in the Guangdong Province were subject to EIT of 15% before 1 January 2008. Further, as approved by 珠海市高新技術開發區國家稅務局 (National Tax Bureau of High-Tech Development Zone of Zhuhai City*), Zhuhai Technology is also entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from its first profitable year (after deducting losses carried forward) in 2008.

However, after the EIT Law which became effective on 1 January 2008, the standard rate of EIT on most domestic enterprises and foreign invested enterprises has been prescribed at 25% and enterprises which were established before 16 March 2007 and which had enjoyed a lower EIT rate according to the provisions of the tax laws and administrative regulations previously in force may continue to enjoy such preferential tax treatment for a period of five years following the effective date of the new EIT Law on 1 January 2008, but the rate of EIT will progressively increase to 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively.

In addition, certain members of the PRC Operational Entities enjoyed certain tax benefits during the Track Record Period pursuant to 財政部、國家稅務總局關於企業所得稅若干優惠政策的通知 (Notice of the Ministry of Finance and State Administration of Taxation on Several Preferential Policies in respect of Enterprise Income Tax*) (Cai Shui Zi [1994] No. 001): (i) Shanghai Gezhi was entitled to full exemption from EIT for one year from 1 January 2007 to 31 December 2007, (ii) Beijing Yage Zhimei was entitled to full exemption from EIT for one year from 1 January 2007 to 31 December 2007 and (iii) Shenzhen Yage Zhimei was entitled to full exemption from EIT for one year from 1 January 2006 to 31 December 2006. Please refer to Appendix I to this document for the details of the tax benefits enjoyed by our subsidiaries in the PRC and the PRC Operational Entities and the EIT rates applicable to these entities during the Track Record Period.

If the PRC authorities further amend or promulgate new laws or regulations which prescribe a higher standard EIT rate or introduce any change to the tax preferential treatment which our subsidiaries in the PRC and the PRC Operational Entities currently enjoy, our profit after taxation and financial position may be materially and adversely affected.

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.

The outbreak of any severe communicable disease in the PRC (including Hong Kong), if uncontrolled, could have an adverse effect on the overall business sentiments and environment in the PRC (including Hong Kong), which in turn may have an adverse impact on domestic consumption and, possibly the overall GDP growth of the PRC (including Hong Kong).

As our revenue is currently mainly derived from our operations in the PRC (including Hong Kong), any contraction or slow down in the growth of domestic consumption and possible slow down in the GDP growth of the PRC (including Hong Kong) will adversely affect our prospects, future growth and overall financial position. In addition, if any of our employees are affected by any severe communicable disease outbreaks, we may be required to temporarily shut down the affected campuses and quarantine all staff working in those campuses to prevent the spread of the disease. This could adversely affect and/or disrupt our production and the relevant plants and impact our financial performance.

The recent outbreak of Influenza A (H1N1), commonly known as the "swine influenza" has caused an alarming number of deaths worldwide. The increasing number of Influenza A (H1N1) infected cases in certain Asian countries and territories, such as the PRC and Hong Kong, could indicate that it is gradually developing into a pandemic disease, which would threaten human lives and hinder the local and cross-border business activities and affect the prospects of economic recovery in those areas. It is unclear whether the epidemic will become more aggressive or will wane in the near future. Any prolonged outbreak of Influenza A (H1N1) or other severe communicable disease in the PRC (including Hong Kong) or elsewhere could have a material adverse effect on the business, prospects, financial condition or operational results 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.

Currently, Renminbi is not a freely convertible currency. We receive a substantial portion of our revenue in Renminbi and will need to convert Renminbi to foreign currency for payment of dividends, if any, to holders of our Shares. Existing restrictions on the conversion of Renminbi into foreign currencies may affect our ability to convert Renminbi into foreign currencies (and thus restrict the subsequent repatriation of those funds). Such restriction includes, among other things, the approval from SAFE or its local branches for the conversion of Renminbi into foreign currency and remittance out of China thereafter. In addition, any tightening of such restrictions, including but not limited to the future imposition of restrictions on foreign exchange transactions for current-account items such as the payment of dividends, may limit our ability to use resources generated in Renminbi to fund our business activities outside China.

Besides, while the proceeds to be raised from the [●] will be denominated in HK dollars, our functional currency is Renminbi. There is no assurance that HK dollars can be converted into Renminbi at all times, and any restrictions on such conversion may restrict our utilisation of, or even render us unable to utilise, the proceeds from the [●] for implementation of our future plans and thus our business maybe adversely affected.

As most of our revenue and operating costs are denominated in Renminbi, our business and operating results may be materially and adversely affected in the event of a severe increase or decrease in the value of Renminbi against other currencies. The value of Renminbi is subject to changes in China's governmental policies and to international economic and political developments. Any significant appreciation of Renminbi would result in an adverse impact on the conversion of the proceeds from the [●] and future financing into Renminbi for our operations, and any material devaluation of Renminbi against the HK dollars could adversely affect the amount of any cash dividends on our Shares in HK dollars term.

[We may elect to hedge our currency exchange risk when we judge that such action may be required, including the entering into of forward contracts or option contracts to buy or sell foreign currencies against Renminbi. As a result, we may suffer losses resulting from the fluctuation between the buy forward exchange rate and the sell forward exchange rate, or from the price of the option premium. As at the Latest Practicable Date, we held no option or future contracts and during the Track Record Period, we did not purchase or sell any commodity or currency options. We may from time to time review our hedging strategy and there can be no assurance that we will not suffer losses in the future as a result of hedging activities.]

Payment of, and tax exemptions on, dividends are subject to restriction under the PRC laws.

The PRC laws require that dividends be paid only out of the net profit calculated according to the generally accepted accounting principles in the PRC, which differ from generally accepted accounting principles in other jurisdictions. The PRC laws also require foreign-invested enterprise, such as Zhuhai Technology or Shenzhen Yazhimei, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. As a result, our ability to pay dividends will be restricted by the prevailing PRC laws.

In addition, our Company is incorporated in the Cayman Islands and holds interests in each of Zhuhai Technology and Shenzhen Yazhimei each through a Hong Kong incorporated company. As foreign legal entities, dividends derived from our Group's business operations in the PRC for earnings generated prior to 1 January 2008 are currently not subject to income tax under PRC law. However, we cannot assure you that such dividends will continue to be exempted from the EIT Law. Under the EIT Law which became effective on 1 January 2008, if a foreign entity is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends for earnings accumulated since 1 January 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to the double taxation avoidance arrangement between the PRC and Hong Kong, dividends paid by a foreign-invested enterprise, such as Zhuhai Technology or Shenzhen Yazhimei, in China to its shareholder(s), such as City Howwhy or Modern Media (HK) in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise.

In addition, the EIT Law which became effective on 1 January 2008 provides that if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to EIT at the rate of 25% on its worldwide income. Currently, certain members of our Group's management are located in the PRC. If the PRC tax authorities consider that any of our Group's non-PRC entities is a deemed PRC tax resident enterprise after the effective date of the EIT Law and its implementation rules, such deemed PRC tax resident enterprise would therefore be subject to an EIT of 25% on its worldwide income (including dividend income receivable from its subsidiaries), which excludes the dividends receivable directly from another PRC tax resident. However, there have been no official implementation rules regarding the determination of the "de facto management organisation" for foreign enterprises which are not controlled by enterprises in the PRC (including companies like ourselves). We cannot assure you that we will not be considered as a "resident enterprise" under the EIT Law and not be subject to EIT at the rate of 25% on our income generated both inside and outside the PRC. In the event that any of our Company, E-Starship, City Howwhy and Modern Media (HK) is considered as a PRC tax resident for EIT purposes, the tax expense exposure of our Group for the year ended 31 December 2008 would amount to approximately RMB[208,000]. As a result of these changes described above, our Group's historical operating results will not be indicative of our operating results in the future.

Enforcement of judgments obtained from non-PRC courts may be difficult.

Our Company is incorporated in the Cayman Islands. A substantial part of our assets and operations are located however within the PRC. The PRC currently does not have effective treaties or arrangements which provide reciprocal recognition and enforcement of judgments of the courts of the United States, the United Kingdom or other countries, and therefore, it may not be possible for investors to effect service of process upon us or to enforce against us any judgments obtained in such jurisdictions.

The PRC is a signatory of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") which permits enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries, subject to certain exceptions. Even in cases where enforcement is, in principle, provided for by the New York Convention, practical difficulties are sometimes encountered.

Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters, pursuant to which a party with a final court judgment rendered by a Hong Kong court in respect of a judgment sum payable under a civil and commercial action may apply for enforcement of such judgment in the PRC, and vice versa. However, it is impossible to enforce a judgment rendered by the Hong Kong court in the PRC if there is no prior agreement as to the choice of court.

PRC regulations may limit our ability to make additional capital contributions to our subsidiaries in the PRC or the PRC Operational Entities.

We are an offshore holding company engaging our businesses substantially in the PRC through our subsidiaries and the PRC Operational Entities in the PRC. For the future expansion of our operations, we may utilise the proceeds we expect to receive from the [●] to make additional capital contributions or loans to our subsidiaries in the PRC or the PRC Operational Entities. Under the current PRC regulations, any capital contributions or loans to foreign-invested enterprises in the PRC, depending on the amount of total contribution or advance, require approval by or registration with relevant governmental authorities in the PRC.

Should we fail to complete all the necessary government registrations or obtain all the necessary government approvals on a timely basis with respect to future capital contributions made or loans advanced by us to our subsidiaries in the PRC or the PRC Operational Entities, our ability to use the proceeds from the [●] to capitalise or otherwise fund our operations in the PRC could be materially and adversely affected. Any such limitation on funding would result in a reduced liquidity and would adversely affect our ability to fund and expand our businesses in the PRC.

The new PRC Labor 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.

The Standing Committee of the National People's Congress adopted 中華人民共和國勞動合同法 (PRC Labour Contract Law*) on 29 June 2007 which became effective on 1 January 2008. 中華人民共和國勞動合同法 (PRC Labour Contract Law*) imposes requirements relating to, among others, minimum wage, severance payment and non-fixed term employment contracts, and establishes time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labor contract if this requirement is not being satisfied.

Pursuant to the new law, the PRC Operational Entities are required to enter into non-fixed term employment contracts with employees who have worked for them for more than 10 years or, unless otherwise provided under the new law, for whom a fixed term employment contract has been concluded for two consecutive terms since 1 January 2008. Our Group and the PRC Operational Entities may not be able to efficiently terminate non-fixed term employment contracts under the new law without cause. In addition, our Group and the PRC Operational Entities are also required to make severance payments to employees under the fixed term contracts upon the expiration of their employment contracts, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is calculated to be the monthly wage of the employee multiplied by the number of full years that the employee was employed by the employer, unless the employee's monthly wage is three times greater than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years.

Compliance with the relevant laws and regulations may substantially increase our Group's operating costs and may have a material adverse effect on the results of operations of our Group. In particular, an increase in the labor costs in China will increase our production costs and we may not be able to pass these increases on to our advertising customers or readers due to competitive pricing pressures. We cannot assure you that any employment disputes or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could adversely affect the business, financial condition or results of operations of our Group.

There are risks associated with forward-looking statements contained in this document.

Included in this document are various forward-looking statements which can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "continue", "believe" and other similar words.

Since forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our Group's present and future business strategies and the environment in which our Group will operate in the future. Important factors that could cause our Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the loss of key personnel of our Group, changes relating to our industry and changes in general economic and business conditions. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed above in this section. These forward-looking statements speak only as at the Latest Practicable Date.