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### OVERVIEW

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 photographic 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

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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 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 three years ended 31 December 2008, 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 2009 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:

	<b>Years ended 31 December</b>			<b>Three months ended 31 March</b>	
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
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	<u>2,401</u>	<u>7,296</u>	<u>8,794</u>	<u>2,765</u>	<u>2,311</u>
Gross Revenue	248,669	306,058	381,869	70,623	65,416
Less: Sales taxes and other surcharges	<u>(17,367)</u>	<u>(24,973)</u>	<u>(34,044)</u>	<u>(5,518)</u>	<u>(5,394)</u>
Revenue	<u>231,302</u>	<u>281,085</u>	<u>347,825</u>	<u>65,105</u>	<u>60,022</u>

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

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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. Please refer to the paragraph headed “Business strategies” in this section for details of the business strategies we aim to implement to maintain and consolidate our leading position.

### COMPETITIVE STRENGTHS

Our Directors believe that our Group is well positioned in the fast-growing 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**

*“Believe with Attitude. Create with Dreams”* - Our Directors consider the pursuit of one’s dream with passion and belief with an unconventional attitude to be the essence of creativity and of the utmost importance in the media industry of today. This motto is the driving force that motivates us and our staff to strive to devote the best in order to exceed and excel our competitors. Our Group has set our objectives of delivering the truth, the trend and the taste through our focused and innovative media services. Through our innovative and creative content production capability, we aim at promoting an elite concept embodying international values and visions and yet retaining the traditional Chinese elements through the Magazines in order to broaden the horizons of our target readers.

Under the leadership of our management team, our employees have also been instilled with the corporate philosophy of innovation with a focus on customer satisfaction. This distinct philosophy enables us to stand out in the PRC lifestyle magazines market, thereby drawing elite and well known editors and contributors and management personnel to join us, as well as attracting high-end advertising customers to develop business relationships with us.

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

The management team of our Group combines extensive experience in the media and advertising industries with a proven track record in operating and managing our business successfully. Most of the management team members possess solid educational backgrounds and seasoned working experience in established and renowned media and/or advertising corporations with international exposure. Leveraging on their experience and knowledge, the management team is able to lead our Group to innovative publication directions to compete with the leading players in the lifestyle magazines industry of the PRC and international arena. Most importantly, with the insight of our management team, our employees are prepared to embrace change, maintain flexibility and continue to innovate in the fast-evolving industry.

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

We have deployed various dedicated execution teams, including content production, design, sales and marketing, distribution and market research for specific publication-related functions. The content production team of each of the Magazines works independently under the direction of the respective publishing directors to ensure the diversification of the Magazines’ contents. For instance, various content production team members have gained achievements and recognitions in the publication

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industry, and their creative content designs are well known to be editorial masterpieces in the publication industry. Moreover, after the indirect acquisition of City Howwhy in 2003, our content production team has strengthened with the distinctive content production team of “號外” (City Magazine) which bridges us further to the international perspective.

Our other execution teams, such as the sales and marketing team, the creative design team, the magazine distribution team and the market research team operate independently and are supervised by experienced and professional team leaders with solid and well-established market connections. They focus on individually assigned tasks and the clear segregation of duties would allow them to optimise their expertise in the creation of the much-applauded publications that ultimately attract our advertising customers.

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

“週末畫報” (Modern Weekly), which has obtained a number of awards and recognitions from recognised organisations in the PRC over the years, has demonstrated a continuing success and secured a leading market position in the lifestyle magazines sector in the PRC. Through the operation of “週末畫報” (Modern Weekly) with the input of our innovative and influential contents in 2001, we have gained a pioneer advantage in capturing a large market share in the leisure and lifestyle magazines market in the PRC. Following the launch of other high quality lifestyle magazines, namely, “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), “大都市” (Metropolis) and “號外” (City Magazine), we have further implanted our stylish and innovative cultural images to our readers and advertising customers. All of these enable us to establish a sizeable readership base which mainly comprises well-educated middle to high income groups.

The quality and leading market position of the Magazines are manifested by a good number of awards and accreditations we received, including 2005-2006 年度中國最具價值媒體100強 (China’s Top 100 Most Valuable Media in 2005-2006\*), 全國城市生活服務類周報綜合競爭力10強 (Top 10 Competitors of National Weeklies on Urban Life Service\*), 第二屆中國傳媒創新年會: 2006年度十大創新周報 (China Media Innovation Forum: Top 10 Innovative Weeklies in 2006\*), 首屆中國傳媒領軍人物年會暨第三屆中國傳媒創新年會: 2007年度中國十大領軍報業 (China Media Leaders Forum & China Media Innovation Forum: China’s Top 10 Leading Newspaper in 2007\*), 2008 中國標杆品牌 (China Benchmark Brand 2008\*) and 第四屆中國傳媒創新年會暨中國傳媒改革三十年論壇: 十大創新傳媒品牌、十大周報品牌 (China Media Innovation Forum & 30 Years of China Media Reform Forum: Top 10 Innovative Media Brand, Top 10 Weeklies Brand\*) (for “週末畫報” (Modern Weekly)), Awards and Editorial Excellence in 2005 and 2009 (for “新視綫” (The Outlook Magazine)), Awards for Editorial Excellence in 2007, 2008 and 2009 (for “生活月刊” (Life Magazine) and Awards and Editorial Excellence in 2005, 2007, 2008 and 2009 (for “號外” (City Magazine)). For details of these awards and accreditations, please refer to the paragraph headed “Major awards and recognitions” in this section.

### **Strong brand recognition of “Modern Media” that is synonymous with the leading media group in lifestyle magazines in the PRC**

With years of experience in the media industry operation in Hong Kong and the PRC, our Group has established strong brand recognition amongst our advertising customers and reader, and have achieved a leading role in the lifestyle magazines industry in the PRC, which can be evidenced by our eminent advertising clientele comprising mostly internationally renowned brands. Such popularity has also strengthened our positioning as being the national media brand, boasting the elements of

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“international”, “exquisite” and “stylish” which have already been instilled among our target readers. Our Group is able to take advantage of such brand recognition in promoting ourselves among the advertising customers, thereby boosting their confidence in our advertising services. In turn, our Group is benefited from securing increasing numbers of sales orders from existing advertising customers, and attracting potential advertising customers. Such strong and solid business platform further enables our Group to leverage upon for the future development of new business titles and advertising business in the first and second tier cities in the PRC.

### **A wide distribution network covering major cities in the PRC that supports our broad customer base and attracts advertising customers**

Our Group has developed our own distribution network for the Magazines. In the PRC, we have entered into distribution agreements with over [200] distributors, covering more than [20] major cities in the PRC including Shanghai, Guangzhou, Beijing and Shenzhen as well as some second tier cities, such as Hangzhou, Chengdu, Chongqing, Nanjing, Tianjin, Shenyang, Wuhan, Qingdao and Xi’an. We strategically select the designated distribution agents or proprietary owners of local retail outlets, such as bookshops at the airports and subways, supermarkets, convenience stores and newsstands, as our distributors so that we can closely manage the display and brand image of the Magazines at these points of sales through our direct relationship with their agents or owners. The high exposure of the PRC Magazines supported by our extensive and well-managed distribution network put us in an advantageous position that will effectively impress our advertising customers and attract an increasing number of advertising customers.

### **A unique media platform**

With a diversified portfolio of magazines promoted under our corporate brand “Modern Media” in the PRC, we believe we have strategically formulated a unique and multi-segmented business platform of magazines, which our management colloquially refers to as the Mag-Form, to provide integrated advertising and marketing services to our advertising customers. By featuring distinctive contents and style in the Magazines and deploying the valuable human resources in our content production and advertising teams, our Group is able to provide target segmentation solutions and integrated advertising services and marketing solutions to the advertising customers. Thus, our Mag-Form serves as a unique channel for creative advertising and marketing thereby attracting advertising customers and achieving cross-selling advertising opportunities which ultimately will generate revenue for our Group.

### **Provision of integrated value-added advertising services and marketing solutions for our advertising customers**

In addition to the customary sale of advertising spaces in the Magazines, our Group also provides integrated value-added advertising services directly or indirectly through the advertising agents to the brand advertising customers. Our experienced creative team designs tailor-made creative and unique promotions for our advertising customers that suit their advertising needs as well as the marketing strategies of different brands and products, and achieve a talk-of-the-town promotion with a strong impact on the target end customers of our advertising customers. A variety of value-added services is available, including creative content design services, event management and joint promotion events. Our creative content design services include the creation of special advertising formats, such as advertorial, brochures, special creative banners, brand posters and supplementary issues, that enable

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the advertising customers to deliver their messages to their target customers. Together with the international exposure of our management personnel, and the provision of a cross-selling platform, our Group’s local resources enable us to promptly identify differing market niches and to formulate tailor-made advertising strategies that best suit the needs of our diversified advertising customers.

### **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**

Our Directors recognise the importance of maintaining a sustainable growth. Apart from expanding the distribution network coverage of the PRC Magazines and enhancing our integrated value-added advertising and marketing solutions to generate revenue from the sale of advertising spaces in our multi-segmented magazines platform that our advertising customers seek, we intend to expand our existing weekly and monthly magazines portfolio operation by (a) liaising with the PRC Publishing Partners to revamp their existing magazines or operate new nationally-distributed magazines with them which can supplement our existing magazines portfolio with different focus of demographic segmentation or cooperating with such PRC Publishing Partners to enhance the quality of such existing regionally-renowned Chinese-language lifestyle magazines; (b) conducting selective collaboration with appropriate regional PRC Publishing Partners to invest in magazines focusing on the market of second tier cities in the PRC which our Directors consider it to be at a relatively early stage of development of its lifestyle magazines sector; and (c) collaborating with reputable international publishers to operate the Chinese editions with adaptations of their high-end lifestyle and fashion-focused monthly magazines for the PRC and Hong Kong markets in the future.

In selecting targets for investment and collaboration, we principally focus on projects which (a) enable us to exercise reasonable control over the operations of the relevant magazines; (b) enable us to expand readership base in the fast-growing regional advertisement markets; (c) enable us to complete our product portfolio in elite segments in order to provide comprehensive market communication solutions to the advertising customers; and (d) enable our vertical integration of the value-chain to maximise operational profits. Our Directors believe that such collaboration would create desirable synergies and our Group would benefit from the increase in market share and broadened reader base. [Up to the Latest Practicable Date, we had not identified any definite targets for investment and collaboration although we have entered into preliminary discussions with a number of potential targets.]

#### **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**

Reckoning the importance of strengthening market recognition of our corporate brand “Modern Media” as a leading media company specialising in high quality Chinese-language lifestyle magazines which target well-segmented elite readership base in Hong Kong and the PRC, we intend to increase

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our efforts and budgets in promoting our corporate image and our magazines portfolio by organising marketing and public relationship events jointly with or on behalf of our advertising customers and through advertisements on both online and traditional media channels. Leveraging on our multi-segmented magazines and media platform or “Mag-Form”, we have adopted, and will continue to implement, the strategy to cross-sell our advertising customers to incrementally place advertisements in the other magazines we currently operate. We will continue to expand the scope of our integrated value-added advertising services and marketing solutions so that we can develop new business opportunities and generate revenues from different channels, such as the design and production of tailor-made periodicals or supplements for our advertising customers.

### **To expand our geographical coverage to penetrate further into regional distribution networks**

In view of the vast market potential of Chinese-language lifestyle magazines in the PRC with the demographic readership targets that our advertising customers seek, we will continue to allocate resources in strengthening the business relationship with our existing advertising customers, such as establishing new offices or liaison points and enlarging the distribution network through our distributors in the second tier cities in the PRC. It is the current intention of our Group to strength the presence and distribution network in Hangzhou, Nanjing, Chongqing, Chengdu and Tianjin by the end of 2010, and in Wuhan, Shenyang, Dalian, Qingdao, Harbin and Xi’an by the end of 2011. Our Directors believe that these second tier cities have considerable growth potential for the promotion of our Group’s unique integrated value-added advertising and marketing solutions. We believe this is an effective strategy to enlarge the market share and geographical coverage of the PRC Magazines that we operate, resulting in promoting our corporate image and brand recognition in these cities. Also, we will continue to collaborate with our advertising customers closely to identify the changing customers’ needs and market demand in order to develop creative and integrated advertising services to cater for the individual marketing needs of the advertising customers. Our experienced sales and marketing teams will also continue to actively seek business opportunities with new advertising customers directly by updating them with our new advertising and marketing services.

### **To increase efficiency of cost and quality control**

We believe by expanding the magazines portfolio we operate, we will be able to strengthen the synergies within our Mag-Form so that we can save cost internally by the sharing of management resources, and achieve better economies of scale as we can obtain more favourable rates from printers or distributors of our Group. All of these will help us improve our profit margin. We believe this strategy will enhance our competitiveness in the rapidly-growing Chinese-language lifestyle magazines in the PRC in the long run.

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### HISTORY AND DEVELOPMENT

#### Milestones in our business development

Our Group was founded in 1999 by Mr. Shao after his acquisition of Modern Media (HK) in April 1999 as an vehicle to engage in the provision of advertising agency services in Hong Kong. The initial capital of Modern Media (HK) was funded by Mr. Shao’s own financial resources. Mr. Shao aimed to develop an innovative media company to act as a cultural information platform between the international arena and the greater China region.

In 2001, through Mr. Shao’s industry network established from his previous working experiences, our Group identified the PRC Publishing Partner of “週末畫報” (Modern Weekly) for cooperation to operate “週末畫報” (Modern Weekly), which was initially published in the PRC in the 1980s, with the input of our innovative and influential contents. Mr. Shao used Guangzhou Modern Information, which he founded in September 1999 with an initial registered capital of RMB500,000 funded by his own resources, as the vehicle for this venture. As a flagship magazine operated by our Group, “週末畫報” (Modern Weekly) has become a successful magazine in the PRC in the recent years, attracting a niche class of readership]. With years of efforts, our Group has successfully established a famous national media brand through the cooperation with the PRC Publishing Partners to publish high quality and stylish lifestyle magazines.

Following the successful operation of “週末畫報” (Modern Weekly) from 2001 and the subsequent launch of “新視綫” (The Outlook Magazine) in 2002 in the PRC, our Group pursued further to extend our reach to the international horizon and set our vision on magazines with an international exposure. Through the indirect acquisition of City Howwhy which publishes “號外” (City Magazine) in 2003, our Group has been able to take advantage of the strong editorial team of “號外” (City Magazine), whose members have vast experience in the publication of lifestyle magazines and exposure to the ever-changing trend of lifestyle and provide innovative idea and creative inspiration to the other magazines we have launched.

Inspired by the readership of “號外” (City Magazine), we anticipated growing demand for similar lifestyle magazines in the PRC where we have seen continuous improvement in its living standards and a growing middle class with high disposable income and strong purchasing power. Capitalising on the successful cooperation arrangements with the PRC Publishing Partners for “週末畫報” (Modern Weekly) and “新視綫” (The Outlook Magazine), our Group further entered into various cooperation agreements with relevant PRC Publishing Partners for the operation of five other magazines, namely, “生活月刊” (Life Magazine), “汽車生活” (Auto Life), “健康時尚” (LOHAS), “優家畫報” (U+ Weekly) and “大都市” (Metropolis) during 2005 to 2009. Our Directors believe the Magazines have constituted a meaningful portfolio of magazines under our corporate brand “Modern Media” in the PRC and Hong Kong. Further, our Mag-Form have enabled us to efficiently execute our business strategies. Please refer to the paragraphs headed “Business strategies” above in this section for further discussion of these business strategies.



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The following table illustrates the key milestones of our business development:

January 2001	We commenced the operation of “週末畫報” (Modern Weekly) which has become reputable for its innovative format and contents.
April 2002	We commenced the operation of “新視綫” (The Outlook Magazine), a creative lifestyle and design magazine.
August 2003	We took over the publication of “號外” (City Magazine), a lifestyle magazine then with a publication history of about 27 years in Hong Kong, following the indirect acquisition of City Howwhy.
December 2005	We commenced the operation of “生活月刊” (Life Magazine), a magazine for the contemporary Chinese cultural and lifestyle elites and leaders.
December 2006	We commenced the operation of “汽車生活” (Auto Life), a new generation of car magazine with a mixture of lifestyle and car culture.
January 2008	We commenced the operation of “健康時尚” (LOHAS), a magazine enhancing the lifestyle, health and sustainability of women.
December 2008	We commenced the operation of “優家畫報” (U+ Weekly), a high quality women weekly magazine.
May 2009	We took over the operation of “大都市” (Metropolis), a magazine with separate editions dedicated to male and female readers respectively.

### **Milestones in our corporate development**

The origin of our Group dated back to April 1999 when Mr. Shao established Modern Media (HK) to engage in advertising agency services in Hong Kong. Attracted by the growing demand for high quality and stylish lifestyle magazines and advertising business in the PRC, Mr. Shao decided that our Group should broaden our business territory and strategically ventured into the PRC, where our management has envisaged great potentials for further development. The following table highlights the key milestones in the corporate development of our Group since inception:

April 1999	Mr. Shao acquired Modern Media (HK) to primarily engage in advertising agency services.
September 1999	Guangzhou Modern Information was established.
January 2002	Beijing Yage was established in Beijing to provide supporting advertising agency service in a cultural city which our Directors believe is rapidly growing in so far as advertising business is concerned.

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June 2002	Shanghai Yage was established in Shanghai to provide supporting advertising agency service in a fast-growing business centre in the PRC.
August 2003	Following the acquisition of E-starship, City Howwhy (and its publication “號外” (City Magazine)) has become part of our Group.
November 2004	Guangzhou Modern Books was established in Guangzhou to centralise the distribution network of our Group.
March 2007	Our Company was incorporated in the Cayman Islands.
December 2007	Modern Media (HK) acquired Zhuhai Technology to undertake the research and development and certain management and administrative functions of our Group.
June 2009	Zhuhai Technology set up its branch offices in Shenzhen, Shanghai, Guangzhou and Beijing to accommodate the management staff transferred to our Group from the PRC Operational Entities in furtherance of the business carried on by our Group to the PRC Operational Entities in accordance with the relevant contracts constituting the Contractual Arrangements.

We also set out below the corporate history and major shareholding changes of the principal members of our Group (including the PRC Operational Entities):

(i) ***Our Company***

Our Company was incorporated in the Cayman Islands on 8 March 2007 as an exempted company with limited liability.

Our Company has become the ultimate holding company of our Group since its acquisition of the entire issued share capital of E-starship from Hero Enterprises Limited at the consideration of US\$1, being the nominal value of the equity interest of the registered capital transferred (Hero Enterprises Limited was then and is also wholly and beneficially owned by Mr. Shao) in April 2007. The acquisition was a step to streamline the corporate structure of our Group.

At the time of its incorporation, the authorised share capital of our Company was US\$50,000 divided into 50,000 ordinary shares of US\$1 each, which were subsequently divided into 50,000,000 shares of US\$0.001 each and with 8,000,000 ordinary shares of US\$0.001 each held by Mr. Shao. For the purpose of the [●], our Company has undergone further changes in both its authorised and issued share capital, details of which are set out in the paragraph headed “Changes in share capital of the Company” in Appendix V to this document.

(ii) ***E-starship***

E-starship was incorporated in BVI on 18 May 2000 with a registered share capital of US\$50,000 divided into 50,000 shares of US\$1 each. E-starship became part of our Group when in August 2003, Hero Enterprises Limited (which was then and is wholly and beneficially owned by Mr. Shao) acquired the entire issued share capital of E-starship from an Independent Third Party at the consideration of HK\$7,500,000. The consideration for the acquisition was arrived at after arm’s length negotiation between the parties involved with reference to, among other things, the negative net asset value of

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E-starship as at 30 June 2003 and the then loss making status of E-starship. Notwithstanding the then negative net asset value and the loss making status of E-starship, Hero Enterprises Limited and Mr. Shao considered the consideration of HK\$7,500,000 fair and reasonable on the basis of two significant factors: (a) the anticipated horizontal expansion of our business outside the mainland China market by the indirect acquisition of “號外” (City Magazine) which then already had a publishing history of 27 years and was considered to be one of the most influential cultural and fashion magazines in Hong Kong, and was then published by City Howwhy (which in turn was and is held by E-starship); and (b) the rarity of the opportunity to acquire a recognised magazine as “號外” (City Magazine). The content production team and strong editorial team of “號外” (City Magazine) have vast experience in the publication of lifestyle magazines and exposure to the ever-changing trend of lifestyle, which were expected to bridge us further to the international perspective and to provide inspiration for the development of other magazines we launch. The assets, liabilities, contractual obligations, employees, suppliers and customers are assumed and enjoyed by our Group after the acquisition of E-starship.

As a step to streamline the corporate structure of our Group, our Company, shortly after its incorporation under the auspices of Mr. Shao, acquired the entire issued share capital of E-starship in April 2007 and since then, E-starship has become the intermediate holding company of our Group.

(iii) *City Howwhy*

City Howwhy was incorporated in Hong Kong on 15 May 2000 with a registered share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. City Howwhy has been engaged in the publication of “號外” (City Magazine). Immediately prior to the acquisition of the entire issued capital in E-starship by Hero Enterprises Limited (which was then and is wholly and beneficially owned by Mr. Shao) in August 2003, City Howwhy was wholly and beneficially owned by E-starship. Since August 2003, City Howwhy had been held as to 50% by E-starship (where the assets, liabilities, contractual obligations, employees, suppliers and customers are assumed and enjoyed by our Group after the indirect acquisition of City Howwhy) and as to 50% by Top Finance Holdings Limited (which was then wholly and beneficially owned by Mr. Shao for the purpose of holding the equity interest of E-Starship, was subsequently transferred to our Company in April 2007 and was transferred back to Mr. Shao in May 2009 and has become wholly and beneficially owned by Mr. Shao since then) until May 2007, when as a step to streamline the corporate structure of our Group, Top Finance Holdings Limited disposed of its 50% shareholding in City Howwhy to E-starship at the consideration of HK\$1, being the nominal value of the equity interest of the registered capital transferred. Since then City Howwhy has remained a wholly owned subsidiary of E-starship.

(iv) *Modern Media (HK)*

Modern Media (HK) was incorporated in Hong Kong on 6 May 1998. It was acquired by Mr. Shao in April 1999 to act as the vehicle to engage in advertising agency services when he and his nominee acquired the two issued shares of HK\$1 each from the then initial subscribers of Modern Media (HK) at the nominal consideration of HK\$1 each respectively. It has a registered share capital of HK\$1 million divided into 1 million shares of HK\$1 each.

Modern Media (HK) has become a wholly owned subsidiary of our Group since the acquisition of its entire issued share capital by City Howwhy (of which Mr. Shao was its ultimate owner) from Mr. Shao and his nominee at the nominal consideration of HK\$2 in April 2007.

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(v) *Zhuhai Technology*

Zhuhai Technology was initially established by an Independent Third Party on 13 April 2006 as a wholly foreign-owned enterprise under the laws of the PRC with a registered capital of HK\$3.25 million and its then permitted business scope was to engage in the research and development, production and sale of self-invented management and finance-related software and after-sale services. On 2 November 2007, Modern Media (HK) entered into an equity transfer agreement with that Independent Third Party pursuant to which Modern Media (HK) acquired the entire equity interest in Zhuhai Technology at nil consideration, which was arrived at after arm’s length negotiation between the parties with reference to the fair value of the then net assets of Zhuhai Technology and the dormant status of Zhuhai Technology before it was acquired by Modern Media (HK). On 3 December 2007, 珠海市對外貿易經濟合作局 (Foreign Trade and Economic Cooperation Bureau of Zhuhai City\*) approved the equity transfer and the increase in the registered capital by HK\$6.75 million. Currently, the registered capital of Zhuhai Technology is HK\$10 million.

Instead of setting up a new entity as our own subsidiary in Zhuhai, our Group acquired Zhuhai Technology, which was then established but dormant, as our management believed that acquiring an effective shelf entity would save more time and cost incurred in the administrative work than setting up a new entity in the PRC.

Since becoming a member of our Group, Zhuhai Technology has played a significant role in our Group’s operation. Zhuhai Technology principally serves as an information technology hub of our Group and provides information technology support to other members of our Group. In addition, it is engaged in the research and development of softwares (including the media management system we developed) which cater for our Group’s operation. As in 2008, Zhuhai Technology’s software development team successfully developed and launched the Media Management System (the “MMS”), which has obtained a certificate of computer software copyright from 中華人民共和國國家版權局 (National Copyright Administration of the PRC\*) and is applied for efficient management and provision of advertising services. Please refer to the paragraph headed “Information technology system” in this section for further details of the system.

Zhuhai Technology is also the flagship of our Group in the PRC now as it has entered into a series of contracts with the PRC Operational Entities that constitute the Contractual Arrangements (as defined and more particularly described in the paragraph headed “Reorganisation” in this section). In this connection, the permitted business scope of Zhuhai Technology has been amended to include the provision of consultation services on project planning, financial information and enterprise management and enterprise image planning.

In view of the potential business growth in the first-tier cities in the PRC, and for the purpose of providing the management and consultation services in accordance with the terms of various contracts constituting the Contractual Arrangements, as well as for accommodating management staff transferred to our Group from the PRC Operational Entities, Zhuhai Technology established four branch offices in Shenzhen, Shanghai, Guangzhou and Beijing on 10 June 2009, 10 June 2009, 17 June 2009 and 22 June 2009, respectively.

The branch offices of Zhuhai Technology are principally engaged in the research and development, production and sale of self-invented software and after-sale services, provision of consultation services on project planning, financial information and enterprise management and enterprise image planning, and they commenced business operations on 1 September 2009.

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(vi) *Shenzhen Yazhimei*

Shenzhen Yazhimei was established on 16 August 2007 as a wholly foreign-owned enterprise of City Howwhy under the laws of the PRC to engage in the provision of consultation services in economic information, project investment planning and enterprise management. It had a registered capital of HK\$2 million at the time of its establishment and it has been wholly owned by City Howwhy since its establishment. Shenzhen Yazhimei has not commenced any business operations since its establishment.

(vii) *PRC Operational Entities*

(a) *Guangzhou Modern Information*

On 3 September 1999, Guangzhou Modern Information was established by Mr. Shao and 廣州現代電子商業網有限公司 (Guangzhou Xiandai Dianzi Shangyewang Company Limited\*) ("**Guangzhou Xiandai**") (which is now known as 廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited\*) and currently owned as to 80% by Mr. Shao and 20% by [Shanghai Senyin], respectively) with an initial registered capital of RMB300,000 (then owned as to 95% by Mr. Shao and as to 5% by Guangzhou Xiandai). Guangzhou Modern Information is now principally engaged in the design, production and agency services of various advertisements; retail sale of the books, newspapers, periodicals edited and published in the PRC; planning of literary arts activities and exhibitions. It has a registered capital of RMB1.1 million.

Since its establishment, the equity interest of the registered capital of Guangzhou Modern Information underwent the following changes:

- (i) On 11 November 2004, Mr. Shao, Guangzhou Xiandai and 高淑莊 (Gao Shuzhuang\*) ("**Ms. Gao**") (*note 1*) entered into an equity transfer agreement pursuant to which each of Mr. Shao and Guangzhou Xiandai transferred each of their 5% of the equity interest in Guangzhou Modern Information to Ms. Gao at the consideration of RMB110,000 each.
- (ii) On 19 October 2006, Mr. Shao and Ms. Gao entered into an equity transfer agreement pursuant to which Mr. Shao acquired 10% of the equity interest in Guangzhou Modern Information from Ms. Gao at the consideration of RMB110,000, being the attributable registered capital transferred.
- (iii) On 18 December 2007, Mr. Shao and 鍾遠紅 (Zhong Yuanhong\*) ("**Ms. Zhong**") (*note 2*) entered into an equity transfer agreement pursuant to which Ms. Zhong acquired 5% of the equity interest in Guangzhou Modern Information from Mr. Shao at the consideration of RMB55,000, being the attributable registered capital transferred.
- (iv) On 13 June 2008, Zhuhai Modern Zhimei and Mr. Shao entered into an equity transfer agreement pursuant to which Zhuhai Modern Zhimei acquired 95% of the equity interest in Guangzhou Modern Information from Mr. Shao at the consideration of RMB1,045,000, being the attributable registered capital transferred.
- (v) On 8 October 2008, Mr. Shao entered into two equity transfer agreements with Ms. Zhong and Zhuhai Modern Zhimei respectively, pursuant to which Mr. Shao acquired

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5% of the equity interest in Guangzhou Modern Information from Ms. Zhong and 95% of the equity interest in Guangzhou Modern Information from Zhuhai Modern Zhimei at the respective consideration of RMB55,000 and RMB1,045,000, being the attributable registered capital transferred. Following this transfer, Guangzhou Modern Information has been wholly and beneficially owned by Mr. Shao.

Guangzhou Modern Information is the leading member of the PRC Operational Entities as it has entered into cooperation agreements with the PRC Publishing Partners through which we have acquired the right to sell advertising spaces in and to distribute the PRC Magazines for the PRC Publishing Partners to generate a substantial portion of our revenue through the sale of advertising spaces and the circulation of the PRC Magazines. Guangzhou Modern Information is also the applicant for the registration of certain trademarks and the registered owner of certain domain names which are of material importance to our business, the particulars of which are disclosed in the paragraph headed “Intellectual property rights of the Group” in Appendix V to this document.

(b) *Guangzhou Modern Books*

Guangzhou Modern Books was established on 24 November 2004 to engage in consultation services for books information; books presentation design; wholesale and retail sale for books, newspapers and periodicals edited and published in China. It has a registered capital of RMB3.01 million.

Guangzhou Modern Books was owned as to 90% by Mr. Shao and as to 10% by 周暉 (Zhou Hui\*) (“**Mr. Zhou**”) (*note 3*) until in contemplation of the [●] and as part of the Reorganisation, Mr. Zhou entered into an equity transfer agreement with Guangzhou Modern Information on 15 April 2009, pursuant to which Mr. Zhou transferred his 10% equity interest in Guangzhou Modern Books to Guangzhou Modern Information at the consideration of RMB301,000, being the attributable registered capital transferred. Following completion of the said transfer since 12 May 2009, Guangzhou Modern Books has been owned as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information.

Guangzhou Modern Books plays a significant role in supporting the operation of Guangzhou Modern Information as it has undertaken to distribute the PRC Magazines for Guangzhou Modern Information in the PRC. Currently, Guangzhou Modern Books holds a valid distribution licence 中華人民共和國出版物經營許可証 (Publication Operation License of the PRC\*) which will expire on 31 March 2013 and as such, the distribution of all the PRC Magazines is undertaken by Guangzhou Modern Books.

(c) *Zhuhai Yinhu*

Zhuhai Yinhu was established by two Independent Third Parties on 30 March 2001 to engage in the design, production, publication of advertisements and provision of advertising agency services. It has a registered capital of RMB500,000. On 5 June 2008, each of Mr. Shao and Ms. Zhong (*note 2*) entered into an equity transfer agreement with the then owners of Zhuhai Yinhu (who were and are Independent Third Parties), pursuant to which Mr. Shao acquired 90% of the equity interest in Zhuhai Yinhu at the consideration of RMB63,000 and Ms. Zhong

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acquired the remaining 10% of the equity interest in Zhuhai Yinhu at the consideration of RMB7,000. The consideration for the acquisitions was arrived at after arm's length negotiation between the parties involved with reference to the fair value of the then net assets of Zhuhai Yinhu.

In preparation for the [●] and as part of the Reorganisation, Ms. Zhong entered into an equity transfer agreement with Guangzhou Modern Information on 13 April 2009, pursuant to which Ms. Zhong transferred her 10% equity interest in Zhuhai Yinhu to Guangzhou Modern Information at the consideration of RMB50,000, being the attributable registered capital transferred. Following completion of the said transfer since 4 May 2009, Zhuhai Yinhu has been owned as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information.

(d) *Zhuhai Modern Zhimei*

Zhuhai Modern Zhimei was established by an Independent Third Party on 23 October 2006 with an initial registered capital of HK\$6 million and the permitted business scope was to engage in the production and sale of mould, metal stamping products and electronic products (which was subsequently amended as "the design, publication and agency services for advertisements; consultation services for project planning, enterprise investment and economic information" in June 2008).

During the Track Record Period, the equity interest of the registered capital of Zhuhai Modern Zhimei underwent the following changes:

- (i) In November 2007, Modern Media (HK) acquired the entire equity interest of Zhuhai Modern Zhimei from its founder at nil consideration. Such consideration was based on the then fair value of the net assets of Zhuhai Modern Zhimei and given none of its registered capital was paid up then and that Zhuhai Modern Zhimei was then dormant, the consideration was determined as nil. Following completion of the said transfer, Zhuhai Modern Zhimei then became wholly and beneficially owned by Modern Media (HK).
- (ii) In April 2008, Mr. Shao acquired from Modern Media (HK) the entire equity interest of Zhuhai Modern Zhimei at the consideration of HK\$10 million, being the attributable registered capital transferred, following which the corporate nature of Zhuhai Modern Zhimei was converted from a foreign invested entity to a domestic enterprise.
- (iii) In August 2008, Mr. Shao transferred to Zhuhai Yinhu the entire equity interest of Zhuhai Modern Zhimei at the consideration of RMB8,950,000, being the attributable registered capital transferred, following which Zhuhai Modern Zhimei has become a wholly owned subsidiary of Zhuhai Yinhu.

Upon completion of the Reorganisation, Zhuhai Modern Zhimei acts as an investment holding company for holding the entire equity interest of each of Shanghai Gezhi, Beijing Yage Zhimei, Shenzhen Yage Zhimei and Guangzhou Yage.

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(e) *Shanghai Yage*

Shanghai Yage was established on 17 June 2002 by Guangzhou Modern Information and an Independent Third Party, with an initial registered capital of RMB500,000 (owned as to 90% by Guangzhou Modern Information and as to 10% by the Independent Third Party). Shanghai Yage is now principally engaged in the design and production of various advertisements and agency services for advertising business in the PRC.

Since its establishment, the equity interest of the registered capital of Shanghai Yage underwent the following changes:

- (i) On 20 October 2003, 廣州現代設計製作有限公司 (Guangzhou Xiandai Sheji Zhizuo Company Limited\*) (“**Guangzhou Xiandai Sheji**”) (which is now de-registered and was substantially owned by Mr. Shao before de-registration) entered into an equity transfer agreement with the Independent Third Party pursuant to which the Independent Third Party transferred 10% of the equity interest in Shanghai Yage to Guangzhou Xiandai Sheji at the consideration of RMB50,000, being the attributable registered capital transferred.
- (ii) On 10 October 2007, Guangzhou Modern Information entered into an equity transfer agreement with Guangzhou Xiandai Sheji pursuant to which Guangzhou Xiandai Sheji transferred 10% of the equity interest in Shanghai Yage to Guangzhou Modern Information at a consideration of RMB50,000, being the attributable registered capital transferred. Following this transfer, Shanghai Yage has been wholly and beneficially owned by Guangzhou Modern Information.

On 10 April 2009, in contemplation of the [●] and as part of the Reorganisation, Guangzhou Modern Information and Guangzhou Modern Books entered into an equity transfer agreement, pursuant to which Guangzhou Modern Information transferred 10% of the equity interest in Shanghai Yage to Guangzhou Modern Books at the consideration of RMB50,000, being the attributable registered capital transferred. Following completion of the said transfer since 4 May 2009, Shanghai Yage has been owned as to 90% by Guangzhou Modern Information and as to 10% by Guangzhou Modern Books.

(f) *Beijing Yage*

Beijing Yage was established on 15 January 2002 by Guangzhou Modern Information and 邵國權 (Shao Guoquan\*) (*note 4*), with an initial registered capital of RMB500,000 (owned as to 80% by Guangzhou Modern Information and as to 20% by 邵國權 (Shao Guoquan\*)). Beijing Yage is now principally engaged in the design, production, publication and agency services for advertisements in the PRC; organising cultural exchange activities and exhibitions.

Since its establishment, the equity interest of the registered capital of Beijing Yage underwent the following changes:

- (i) On 1 March 2005, 厲劍 (Li Jian\*) (“**Mr. Li**”) (*note 5*) acquired 20% of the equity interest in Beijing Yage from 邵國權 (Shao Guoquan\*) at the consideration of RMB100,000, being the attributable registered capital transferred.



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- (ii) On 26 February 2007, Mr. Shao acquired 20% of the equity interest in Beijing Yage from Mr. Li at the consideration of RMB100,000, being the attributable registered capital transferred. Following this transfer, Beijing Yage has been owned as to 80% by Guangzhou Modern Information and as to 20% by Mr. Shao.
- (iii) On 15 April 2009, in contemplation of the [●] and as part of the Reorganisation, Mr. Shao and Guangzhou Modern Books entered into an equity transfer agreement, pursuant to which Mr. Shao transferred 20% of the equity interest in Beijing Yage to Guangzhou Modern Books at the consideration of RMB100,000, being the attributable registered capital transferred. Following completion of the said transfer since 24 April 2009, Beijing Yage has been owned as to 80% by Guangzhou Modern Information and as to 20% by Guangzhou Modern Books.

(g) *Shanghai Gezhi*

Shanghai Gezhi was established on 16 January 2006 by Shenzhen Yage Zhimei and Ms. Zhong (*note 2*) with an initial registered capital of RMB500,000 (owned as to 90% by Shenzhen Yage Zhimei and as to 10% by Ms. Zhong). Shanghai Gezhi is now principally engaged in the design, production, publication and agency services for various advertisements, business information consultation and related business consultation services.

Since its establishment, the equity interest of the registered capital of Shanghai Gezhi underwent the following changes:

- (i) On 23 June 2008, Zhuhai Modern Zhimei entered into an equity transfer agreement with Shenzhen Yage Zhimei pursuant to which Shenzhen Yage Zhimei transferred 90% of the equity interest in Shanghai Gezhi to Zhuhai Modern Zhimei at the consideration of RMB450,000, being the attributable registered capital transferred.
- (ii) On 25 August 2008, Zhuhai Modern Zhimei entered into an equity transfer agreement with Ms. Zhong pursuant to which Ms. Zhong transferred 10% of the equity interest in Shanghai Gezhi to Zhuhai Modern Zhimei at the consideration of RMB50,000, being the attributable registered capital transferred. Following this transfer, Shanghai Gezhi has been wholly and beneficially owned by Zhuhai Modern Zhimei.

(h) *Beijing Yage Zhimei*

Beijing Yage Zhimei was established on 29 March 2006 by 黃春慧 (Huang Chunhui\*) ("Ms. Huang") (*note 6*) and Shenzhen Yage Zhimei with an initial registered capital of RMB500,000 (owned as to 99% by Shenzhen Yage Zhimei and as to 1% by Ms. Huang). Beijing Yage Zhimei is now principally engaged in the design, production, publication and agency services for advertisements; organising cultural exchange activities and exhibitions.

Since its establishment, the equity interest of the registered capital of Beijing Yage Zhimei underwent the following changes:

- (i) On 26 February 2007, Mr. Shao entered into an equity transfer agreement with Ms. Huang pursuant to which Ms. Huang transferred 1% of the equity interest in Beijing Yage Zhimei to Mr. Shao at the consideration of RMB5,000, being the attributable registered capital transferred.

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- (ii) On 13 June 2008, each of Ms. Zhong (*note 2*) and Mr. Shao, and Zhuhai Modern Zhimei and Shenzhen Yage Zhimei entered into two equity transfer agreements pursuant to which Mr. Shao transferred 1% of the equity interest in Beijing Yage Zhimei to Ms. Zhong at the consideration of RMB5,000, being the attributable registered capital transferred, and Shenzhen Yage Zhimei transferred 99% of the equity interest in Beijing Yage Zhimei to Zhuhai Modern Zhimei at the consideration of RMB495,000.
- (iii) On 12 August 2008, Zhuhai Modern Zhimei entered into an equity transfer agreement with Ms. Zhong pursuant to which Ms. Zhong transferred 1% of the equity interest in Beijing Yage Zhimei to Zhuhai Modern Zhimei at a consideration of RMB5,000, being the attributable registered capital transferred. Following this transfer, Beijing Yage Zhimei has been wholly and beneficially owned by Zhuhai Modern Zhimei.

(i) *Shenzhen Yage Zhimei*

Shenzhen Yage Zhimei was established on 8 June 2005 by Mr. Shao and 陳佳穎 (Chen Jiaying\*) (“**Ms. Chen**”) (*note 7*) with an initial registered capital of RMB2,000,000 (then owned as to 95% by Mr. Shao and 5% by Ms. Chen). Shenzhen Yage Zhimei is now principally engaged in advertising business.

Since its establishment, the equity interest of the registered capital of Shenzhen Yage Zhimei underwent the following changes:

- (i) On 15 March 2006, 劉關姍 (Liu Guanshan\*) (“**Ms. Liu**”) (*note 8*) acquired 5% of the equity interest in Shenzhen Yage Zhimei from Ms. Chen at a nominal consideration of RMB1. The consideration was nominal given it was a transfer between the trustees of Mr. Shao.
- (ii) On 16 March 2007, Mr. Shao entered into an equity transfer agreement with Ms. Liu pursuant to which Ms. Liu transferred 5% of the equity interest in Shenzhen Yage Zhimei to Mr. Shao at a nominal consideration of RMB1. The consideration was nominal given it was a transfer from a trustee back to Mr. Shao.
- (iii) On 20 May 2008, Ms. Zhong (*note 2*) acquired 5% of the equity interest in Shenzhen Yage Zhimei from Mr. Shao at a nominal consideration of RMB1. The consideration was nominal given it was a transfer from Mr. Shao to his trustee.
- (iv) On 15 July 2008, Zhuhai Modern Zhimei acquired 95% of the equity interest in Shenzhen Yage Zhimei from Mr. Shao at the consideration of RMB1,900,000, being the attributable registered capital transferred.
- (v) On 20 August 2008, Zhuhai Modern Zhimei acquired 5% of the equity interests in Shenzhen Yage Zhimei from Ms. Zhong at a nominal consideration of RMB1. The consideration was nominal given Ms. Zhong then held the equity interest transferred on trust only. Following this transfer, Shenzhen Yage Zhimei has been wholly and beneficially owned by Zhuhai Modern Zhimei.

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(j) *Guangzhou Yage*

Guangzhou Yage was established on 25 February 2004 by Mr. Shao and Ms. Zhong (*note 2*) with an initial registered capital of RMB500,000 (owned as to 90% by Mr. Shao and as to 10% by Ms. Zhong). Guangzhou Yage is now principally engaged in the design of enterprise image, planning of enterprise ceremony, design, production, publication and agency services for various advertisements. Following the transfer of 90% and 10% equity interest in Guangzhou Yage by Mr. Shao and Ms. Zhong respectively to Shenzhen Yage Zhimei at the respective consideration of RMB450,000 and RMB50,000, being the attributable registered capital transferred in May 2007, Guangzhou Yage has been wholly and beneficially owned by Shenzhen Yage Zhimei.

On 15 April 2009, in contemplation of the [●] and as part of the Reorganisation, Shenzhen Yage Zhimei and Zhuhai Modern Zhimei entered into an equity transfer agreement, pursuant to which Shenzhen Yage Zhimei transferred the entire equity interest in Guangzhou Yage to Zhuhai Modern Zhimei at the consideration of RMB500,000, being the attributable registered capital transferred. Following completion of the said transfer, Guangzhou Yage has been wholly and beneficially owned by Zhuhai Modern Zhimei.

Notes:

1. Ms. Gao is an employee of the PRC Operational Entities. Mr. Shao had nominated Ms. Gao to hold the relevant equity interests in Guangzhou Modern Information on trust for Mr. Shao at the relevant times as disclosed above.
2. Ms. Zhong is a member of the senior management of our Group and her biography has been disclosed in the section headed “Directors, management and staff” in this document. Mr. Shao had nominated Ms. Zhong to hold the relevant equity interests in (a) Guangzhou Modern Information; (b) Zhuhai Yinhu; (c) Shanghai Gezhi; (d) Beijing Yage Zhimei; (e) Shenzhen Yage Zhimei; and (f) Guangzhou Yage on trust for Mr. Shao at the relevant times as disclosed above.
3. Mr. Zhou is an employee of Guangzhou Modern Books. Since the establishment of Guangzhou Modern Books and during the Track Record Period, Mr. Shao had nominated Mr. Zhou to hold the 10% equity interest in Guangzhou Modern Books on trust for Mr. Shao.
4. 邵國權 (Shao Guoquan\*) is a former employee of Beijing Yage. Mr. Shao had nominated 邵國權 (Shao Guoquan\*) to hold the relevant equity interests in Beijing Yage on trust for Mr. Shao at the relevant times as disclosed above.
5. Mr. Li is an executive Director and a member of the senior management of our Group and his biography has been disclosed in the section headed “Directors, management and staff” in this document. Mr. Shao had nominated Mr. Li to hold the relevant equity interests in Beijing Yage on trust for Mr. Shao at the relevant times as detailed above.
6. Ms. Huang is an employee of Beijing Yage. Mr. Shao had nominated Ms. Huang to hold the relevant equity interests in Beijing Yage Zhimei on trust for Mr. Shao at the relevant times as disclosed above.
7. Ms. Chen is a former employee of Shenzhen Yage Zhimei. Mr. Shao had nominated Ms. Chen to hold the relevant equity interests in Shenzhen Yage Zhimei on trust for Mr. Shao at the relevant times as disclosed above.
8. Ms. Liu is a former employee of Shenzhen Yage Zhimei. Mr. Shao had nominated Ms. Liu to hold the relevant equity interests in Shenzhen Yage Zhimei on trust for Mr. Shao at the relevant times as disclosed above.

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During the relevant times when the above-mentioned nominees hold the relevant equity interests, each of them exercised his/her rights as a shareholder of the relevant PRC Operational Entities in accordance with the instructions of Mr. Shao from time to time and received no compensation for acting as such nominee shareholder. There were fairly frequent shareholding changes in each of the members of our Group (including the PRC Operational Entities), not for the purpose of the transactions contemplated as part of the Reorganisation, since given under the then applicable laws in the PRC, each company is required to have at least two shareholders. Thus, Mr. Shao had nominated another individual, in most cases a staff of our Group, to be his trustee to hold the minority stake in the relevant members of our Group. The shareholding of the trustee had been transferred whenever the staff left our Group or was seconded among different regional offices. Our PRC legal adviser has confirmed that the respective trust arrangements between Mr. Shao and each of the above nominees are legally binding and enforceable between Mr. Shao and each of the nominees under the prevailing PRC laws and regulations.

In addition, Mr. Shao was the sole director of each of the PRC Operational Entities during the Track Record Period or immediately after the respective PRC Operational Entities having become part of our Group (where this is a shorter period).

We have also been advised by our legal advisers that:

- (a) we had obtained from the relevant governmental authorities and registration required for the transfer of the registered capital of the companies disclosed above; and
- (b) the issued share capital or (in respect of companies incorporated in the PRC) the registered capital and the increase in the registered capital of the companies comprising our Group had been duly paid up within the required timeframe.

## REORGANISATION

Prior to the [●] and in preparation of the Contractual Arrangements, our Group (comprising our Company, all of our subsidiaries and the PRC Operational Entities) underwent the Reorganisation, details of which are set out in the paragraph headed “Reorganisation” in Appendix [V] to this document.

In addition to the steps described in the sub-section headed “History and development” above, the following companies have been excluded from forming part of the PRC Operational Entities at the direction of Mr. Shao for the purpose of rationalising the corporate structure of the PRC Operational Entities before their entering into the Contractual Arrangements:

- (i) *Sichuan Shangdu*

Sichuan Shangdu was established on 20 April 2007 by Guangzhou Modern Information and an Independent Third Party with an initial registered capital of RMB2,000,000 (owned as to 50% by Guangzhou Modern Information (which was subsequently transferred to Zhuhai Modern Zhimei in August 2008) and as to 50% by the Independent Third Party) to engage in commercial service industry. Prior to completion of the Reorganisation, the equity interest of Sichuan Shangdu was owned as to 50% by Zhuhai Modern Zhimei and as to 50% by an Independent Third Party.

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It was one of the business plans of Guangzhou Modern Information and the Independent Third Party that Sichuan Shangdu would provide content production services for a pamphlet as supplementary insertion to a local newspaper in Chengdu and which aimed at capturing the local high-end lifestyle advertisement market in Sichuan Province. However, due to the limited demand of high-end lifestyle advertisements in the local market (which was further aggravated as a result of the earthquake in Sichuan in May 2008), the operation of Sichuan Shangdu had been loss making since its establishment. As such, our Group and the other shareholder of Sichuan Shangdu decided to terminate the abovementioned business plan in around the end of 2008 and Sichuan Shangdu has since then been dormant. As our Directors consider that it is not necessary to include a dormant business in our Group, Sichuan Shangdu was excluded from our Group with effect from May 2009 following the completion of the transfer of the equity interest in 50% of the registered capital of Sichuan Shangdu by Zhuhai Modern Zhimei to an Independent Third Party, at the consideration of RMB298,000. As the consideration for the disposal of RMB298,000 is equivalent to the net asset value attributable to the equity interests disposed, no gain or loss has been recorded as a result of the disposal. Our Directors confirm that there is no contingent liability as a result of the disposal.

(ii) *Tianjin Holiday*

Tianjin Holiday was established on 28 June 2002 to engage in the design and production of broadcast, film and television, billboard and neon light advertisements; design of presswork advertisements; international trading; commodities exhibitions; wholesale and retail sale of cultural and office supplies and communication equipments, design of conferences and exhibitions; conference services; food and beverage; sale of packed food and alcohol drinks; investigation services. In August 2007, our Group acquired 20% equity interest in Tianjin Holiday with an intention to invest in the operation of a regional weekly magazine in Tianjin. Prior to completion of the Reorganisation, the equity interest of Tianjin Holiday was owned as to 20% by Zhuhai Modern Zhimei and as to 80% by two Independent Third Parties.

However, since our Group was only able to exercise limited control over the operation of Tianjin Holiday as a minority shareholder, our Directors considered that is not in line with the business strategy of our Group. Accordingly, our Directors decided to divest such investment in Tianjin Holiday and disposed our Group’s equity interest in Tianjin Holiday to an Independent Third Party at the consideration of RMB8,101,200 in May 2009. The disposal resulted in a loss of RMB1,468,800, representing the difference between the consideration of the disposal and the net assets of RMB9,570,000 disposed. Our Directors confirm that there is no contingent liability as a result of the disposal.

For the preparation of the financial information in the accountants’ report of our Company set forth in Appendix I to this document, the financial results of Sichuan Shangdu (which is 50% owned by Zhuhai Modern Zhimei) and Tianjin Holiday (which is 20% owned by Zhuhai Modern Zhimei) have been accounted for under equity method during the Track Record Period.

Details of and reasons for the exclusion of Shanghai Senyin and Guangzhou Xiandai are disclosed in the section headed “Relationship with the Controlling Shareholder” in this document. Please also refer to the paragraph headed “Reorganisation” in Appendix V to this document for further details of the Reorganisation.

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### Regulatory matters

With respect to whether Mr. Shao is subject to the requirements under the No. 75 Notice by virtue of the Reorganisation and the [●], we have conducted unofficial consultation, through our PRC legal adviser and our staff, with the officers of the state bureau and local branch of SAFE respectively, who are appropriate officers and authorities to give advice on such consultation as confirmed by our PRC legal adviser. Such officers indicated that the registration application of Mr. Shao in relation to the offshore investment-related foreign exchange ascribed thereto in the No. 75 Notice will not be accepted or considered, and it is appropriate for qualified PRC lawyers to opine on such issue. We have been advised by our PRC legal adviser that although Mr. Shao holds a PRC identity card, it is not required for Mr. Shao to apply for the registration of the offshore investment-related foreign exchange under the No. 75 Notice on the basis that (a) Mr. Shao obtained a Hong Kong identity card (Hong Kong non-permanent resident) in October 1992; and (b) Mr. Shao has been receiving salaries in Hong Kong and treated as a Hong Kong resident by the relevant authority in Hong Kong for the purposes of Hong Kong salaries tax since 2002. Therefore, Mr. Shao does not qualify as a “domestic resident” within the meaning ascribed thereto in the No. 75 Notice.

Furthermore, we have been advised by our PRC legal adviser that:

- (i) pursuant to applicable PRC laws, as Mr. Shao is a Chinese citizen, enterprises established by Mr. Shao in the PRC are regarded as PRC enterprises. Mr. Shao’s equity interests in the PRC Operational Entities are not in violation of PRC laws on restricted foreign ownership of companies in the publishing industry;
- (ii) since no part of the Reorganisation has involved any merger or acquisition of domestic entities through the acquisition of equity or asset by foreign investors ascribed thereto in the provisions of 關於外國投資者併購境內企業的規定 (The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors\*) which became effective from 8 September 2006, are not applicable insofar as the Reorganisation is concerned; and
- (iii) the Reorganisation and the [●] comply with applicable PRC laws and regulations and no approval, consent, filing or registration is required from the PRC regulatory authorities.

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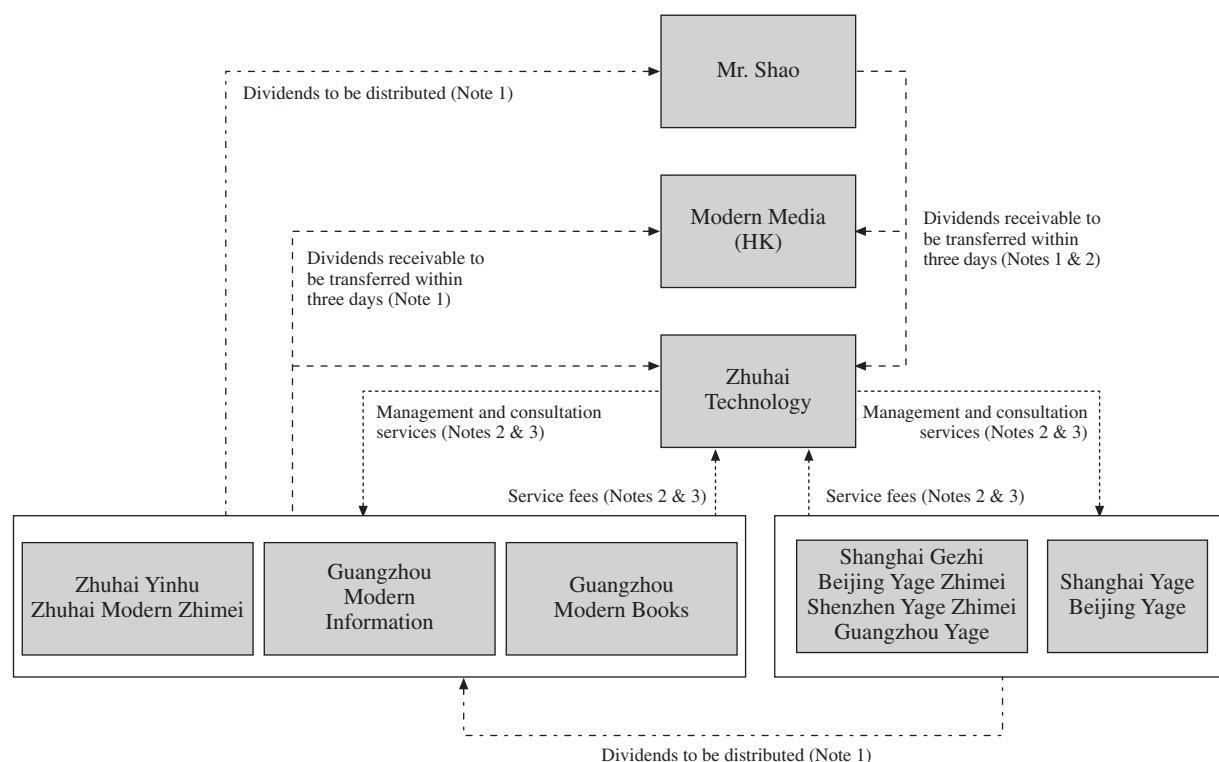
### CONTRACTUAL ARRANGEMENTS

Under the current PRC laws, companies with foreign ownership are restricted from engaging in the publishing business in the PRC. Pursuant to the cooperation agreements entered into between Guangzhou Modern Information and the PRC Publishing Partners, Guangzhou Modern Information is responsible for the contents production of the PRC Magazines, including without limitation, its participation in selecting themes, structuring and reviewing of manuscripts, processing and production of advertisements in story formats and advertorials, and the PRC Publishing Partners are responsible for the review of the contents of the PRC Magazines submitted by Guangzhou Modern Information. Guangzhou Modern Information has delegated to the PRC Operational Entities to arrange for the content productions of the PRC Magazines and also to arrange for other matters including the affirmation of the number of printed copy, price and related expenses of the PRC Magazines, and to conclude respective printing agreements with the printers and to distribute the PRC Magazines on behalf of the PRC Publishing Partners. Therefore, the PRC Operational Entities have, through Guangzhou Modern Information, effectively established indirect cooperation relationship with the PRC Publishing Partners in respect of the contents production, printing and distribution of the PRC Magazines, and have also been operated, as a whole, as “Cooperation Partners” for the PRC Magazines. As such, our Directors are of the view, which our PRC legal adviser concurs, that the business operation of the PRC Operational Entities (i.e, contents production, printing and distribution of the PRC Magazines) as a whole under the cooperation agreements entered into with the PRC Publishing Partners falls within the scope of business which restricted foreign ownership under the prevailing PRC laws and regulations. Accordingly the PRC Operational Entities have not been included in the group, which comprises the Company and those subsidiaries in which the Company has direct and indirect equity interest for the purpose of the Reorganisation and the [●] so that the PRC Operational Entities can continue to engage in their existing business activities. To comply with the PRC laws, we conduct our business operations indirectly in the PRC through the PRC Operational Entities by way of the Contractual Arrangements.

Although our Group does not have any direct equity holding in the PRC Operational Entities, we manage to maintain an effective control over the financial and operational policies of the PRC Operational Entities and are entitled to the economic benefits derived from the operations of the PRC Operational Entities through the Contractual Arrangements.

## BUSINESS

The following simplified diagram illustrates the flow of economic benefits from the PRC Operational Entities to our Group stipulated under the Contractual Arrangements:



Notes:

1. Please refer to the paragraph headed “(ii) Option Agreements” below for details.
2. Please refer to the paragraph headed “(iii) Business Operation Agreements” below for details.
3. Please refer to the paragraph headed “(iv) Management and Consultation Services Agreements” below for details.
4. Please refer to the paragraphs headed “(i) Equity Pledge Agreements”, “(v) Proxy Agreements” and “(vi) Trademark Transfer Agreement” below for further details of the Contractual Arrangements.
5. Please refer to the paragraph headed “Group structure” in this section for more details of the shareholding structure and the principal activities of the members of our Group (including the PRC Operational Entities).

### (i) *Equity Pledge Agreements*

The equity pledge agreements (the “**Equity Pledge Agreements**”) entered into among Zhuhai Technology, Mr. Shao, Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei dated [24] August 2009 constitute a security for guaranteeing the payment of the service fees under the Management and Consultation Services Agreements.

Pursuant to the Equity Pledge Agreements, Mr. Shao, Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei have granted a continuing first priority security over all their respective direct equity interests in the PRC Operational Entities to Zhuhai Technology. None of the equity interests in the members of the PRC Operational Entities may



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## BUSINESS

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be reduced, pledged, transferred or disposed of without the prior consent of Zhuhai Technology. Zhuhai Technology is entitled to all dividends derived from the pledged equity interests and to exercise its rights to sell the pledged equity interests on occurrence of any non-payment of the services fees under the Management and Consultation Services Agreements.

The Equity Pledge Agreements are effective from the date on which they have been executed by the parties thereto while the pledges created thereunder shall become effective upon such pledges having been duly registered in the PRC Operational Entities’ register of members on [●] and having been duly registered with the relevant Administration for Industry and Commerce of the PRC in accordance with the applicable PRC laws. The pledges will remain in full effect during the term of the Management and Consultation Services Agreements, and shall not be terminated until all payments in the Management and Consultation Services Agreements are settled by the PRC Operational Entities, as well as upon which the PRC Operational Entities are no longer responsible for the performance under the Management and Consultation Service Agreements.

(ii) *Option Agreements*

Pursuant to the option agreements (the “**Option Agreements**”) dated [24] August 2009 entered into among Modern Media (HK), Mr. Shao, Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei, Modern Media (HK) has been granted options to acquire, directly or through one or more nominees, the entire equity interest in the PRC Operational Entities at nil consideration or the minimum amount as permitted by the applicable PRC laws. Subject to compliance with the PRC laws, Modern Media (HK) may exercise the options at any time and in any manner at its sole discretion. Pending the acquisition of the entire equity interests in the PRC Operational Entities by our Group (as permitted by the PRC laws and regulations), Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei have undertaken, among other things, that they shall not reduce their respective registered capital or dispose of any part of their assets, business or revenues unless with the prior consent from Zhuhai Technology.

Furthermore, under the Option Agreements, each of Mr. Shao, Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei has undertaken that he or it shall, and shall procure the relevant PRC Operational Entities to, assign or transfer to Modern Media (HK) or Zhuhai Technology all of his or its dividends and/or capital gain derived from the equity interests in the relevant PRC Operational Entities, distributable reserve and proceeds from the realisation of any assets by the PRC Operational Entities which are distributable in accordance with applicable laws and the constitutional documents of each of the PRC Operational Entities received thereof as soon as practicable but in any event no later than three days upon receipt of the payment or distribution.

Under the Option Agreements, our Group has secured the right of acquiring the entire equity interests in the PRC Operational Entities and pending such acquisition, the PRC Operational Entities have undertaken, among other things, that they shall not reduce their respective registered capital or dispose of any part of their assets, business or revenues unless with the prior consent from Zhuhai Technology. Before the above acquisition contemplated under the Option Agreements is permitted by the laws and regulations of the PRC, our Group may exercise all the rights as if it were the ultimate beneficial owner of the PRC Operational Entities by virtue of the Proxy Agreements.

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Each of the Option Agreements has become effective from [24] August 2009 [and will only expire on the date on which all the equity interests in the PRC Operational Entities are transferred to Modern Media (HK) and/or its nominees, and the registrations of such equity transfers in the relevant administration of industry and commence in the PRC are completed].

(iii) *Business Operation Agreements*

Pursuant to the business operation agreements (the “**Business Operation Agreements**”) dated [24] August 2009 entered into among Zhuhai Technology, Mr. Shao and the PRC Operational Entities, the PRC Operational Entities have undertaken not to enter into any material business transaction without the prior written consent of Zhuhai Technology and to appoint individuals as nominated by Zhuhai Technology to be the directors and key management of the PRC Operational Entities (including those responsible for financial management, accounting, financial control and reporting). Mr. Shao and the PRC Operational Entities have also undertaken to sign and execute such documents authorising Zhuhai Technology’s nominees to be their representatives to exercise the rights of shareholders of the PRC Operational Entities and to ensure that any dividend and/or capital gain derived from the equity interests in the PRC Operational Entities shall be paid to Zhuhai Technology as soon as practicable but in any event no later than three days from the receipt of the payment or distribution.

Under the Business Operation Agreements, the representative to be nominated by Zhuhai Technology to exercise the shareholder’s rights of the PRC Operational Entities will ensure that any dividend and/or capital gain derived from the equity interests in the PRC Operational Entities shall be paid to Zhuhai Technology as soon as practicable but in any event no later than three days from the date of receipt of the payment. Furthermore, all the directors and key management in each member of the PRC Operational Entities are to be nominated by Zhuhai Technology. Such arrangements can further assure Zhuhai Technology and our Group to obtain economic benefits generated from the operations of the PRC Operational Entities; and can assure that our Group is able to monitor, supervise and effectively control the businesses and operations of each member of the PRC Operational Entities.

Each of the Business Operation Agreements shall commence from [24] August 2009 and shall continue until the termination by Zhuhai Technology by giving a 30-day prior written notice to the other parties thereto; or pursuant to the terms under other agreements entered into by the relevant parties.

(iv) *Management and Consultation Services Agreements*

On [24] August 2009, Zhuhai Technology and the PRC Operational Entities entered into management and consultation services agreements (the “**Management and Consultation Services Agreements**”) pursuant to which the PRC Operational Entities will engage Zhuhai Technology on an exclusive basis to provide consultation services in the management, sales and marketing, enterprise management and other supporting services in connection with the PRC Operational Entities’ business services including the exclusive management and consultation, customer management and marketing consultation, enterprise management (including accounting and financial reporting) and consultation, staff training, magazine content and information provision, exclusive planning, consultation and recommendation for magazine arrangement, design and printing; planning, consultation and recommendation for magazine distribution, and other consultation and supporting services permitted under the PRC laws. In consideration of the provision of the aforementioned services by Zhuhai

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## BUSINESS

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Technology, each of the PRC Operational Entities agrees to pay to Zhuhai Technology fees on an annual basis in arrears. Fees payable to Zhuhai Technology by the PRC Operational Entities will be equivalent to the total revenue less all the related costs, expenses and taxes of the respective PRC Operational Entities, as audited by such certified public accountants of the PRC.

Pursuant to the Management and Consultation Services Agreements, Zhuhai Technology will be engaged to provide management and consultation services whereby the business and operations of each of the PRC Operational Entities will be managed by Zhuhai Technology. In return, Zhuhai Technology will be entitled to the consultation service fees payable by the PRC Operational Entities which amount will be equivalent to the total revenue of the respective PRC Operational Entities, after deducting all the relevant costs, expenses and taxes, as audited by such certified public accountants of the PRC. The Directors consider that such arrangements will ensure the economic benefits generated from the operations of the PRC Operational Entities will flow to Zhuhai Technology and hence, our Group as a whole.

Each of the Management and Consultation Services Agreements shall commence from [24] August 2009 and shall continue until the termination by Zhuhai Technology with a 30-day prior written notice to the other parties; or pursuant to the terms under other agreements entered into by the relevant parties. The Management and Consultation Services Agreements are renewable upon Zhuhai Technology's written confirmation that the term be extended.

(v) *Proxy Agreements*

On [24] August 2009, Zhuhai Technology, Mr. Shao, Guangzhou Modern Information, Zhuhai Modern Zhimei and Guangzhou Modern Books entered into proxy agreements (the "**Proxy Agreements**") pursuant to which (a) Mr. Shao is authorised to exercise the shareholders' rights in each of the PRC Operational Entities including attending shareholders' meeting and exercising voting rights (as long as Mr. Shao remains as the chairman of Zhuhai Technology); (b) any PRC individuals designated by Zhuhai Technology is authorised to enjoy and exercise the shareholders' rights of Mr. Shao in each of the PRC Operational Entities (in the event that Mr. Shao shall cease to be the chairman of Zhuhai Technology); and (c) any dividend and/or capital gain derived from the equity interests in the PRC Operational Entities shall be paid to Zhuhai Technology as soon as practicable but in any event no later than three days from the receipt of the payment or distribution. Under the Proxy Agreements, during the period when Mr. Shao holds the directorship of Zhuhai Technology, Mr. Shao shall act according to the best interest and instructions of Zhuhai Technology, and exercise all his and his nominee's rights as a shareholder of the PRC Operational Entities.

Before our Group acquires the entire equity interests in the PRC Operational Entities contemplated under the Option Agreements, our Group can exercise all the rights through Mr. Shao as if we were the ultimate beneficial owner of the PRC Operational Entities by virtue of the Proxy Agreements. Mr. Shao has undertaken that he shall assign or transfer to Zhuhai Technology all of his dividends, capital gain and/or any assets derived from the equity interests in the relevant PRC Operational Entities as soon as practicable but in any event no later than three days upon receipt of such payment or distribution.

The Proxy Agreement shall be in full effect during the term of the Business Operation Agreements.

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## BUSINESS

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(vi) *Trademark Transfer Agreement*

Pursuant to the trademark transfer agreement (the “**Trademark Transfer Agreement**”) dated [24] August 2009 entered into between Guangzhou Modern Information and Zhuhai Technology, Guangzhou Modern Information has granted an option to Zhuhai Technology to acquire certain trademarks in relation to the PRC Magazines and the business of Guangzhou Modern Information at a nominal consideration of RMB1 or such other minimum amount as required by the applicable PRC laws. Prior to Zhuhai Technology’s exercise of the option, Zhuhai Technology and its nominees may use the trademarks free from payment of royalty. Guangzhou Modern Information has been restrained from licensing the trademarks to any third party without Zhuhai Technology’s prior written consent. Through the Trademark Transfer Agreement, Zhuhai Technology will also obtain the rights to acquire any or all of the trademarks of all members of the PRC Operational Entities at such time as permitted by the relevant laws and regulations of the PRC.

The Trademark Transfer Agreement has become effective from [24] August 2009 for a perpetual term and covers all crucial trademarks of our Group’s business.

The rationale for entering into the Contractual Arrangements is to enable Zhuhai Technology to provide our Group with effective control over the financial and operational policies of the PRC Operational Entities regardless the lack of direct equity interest of our Group in those of the PRC Operational Entities, to obtain the economic benefits from the operations of the PRC Operational Entities, and to acquire the equity interests in and/or the trademarks of the PRC Operational Entities as and when permitted under the applicable PRC laws, and to prevent any possible dissipation of assets and values of the PRC Operational Entities to any parties other than the Company or its subsidiaries. These include:

- (i) an option to acquire all the equity interests in the PRC Operational Entities and/or the trademarks in relation to the existing business of the PRC Operational Entities, as and when permitted by the PRC laws, at a nominal price or such other minimum payment as required by the PRC laws;
- (ii) the undertakings from the PRC Operational Entities not to enter into any material business transaction without the prior written consent of Zhuhai Technology;
- (iii) the rights to exercise the rights of shareholders of the PRC Operational Entities; and
- (iv) the pledges in favour of our Company over the entire equity interests in the PRC Operational Entities.

These Contractual Arrangements 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. The Contractual Arrangements are renewable by Zhuhai Technology only and may only be terminated by Zhuhai Technology. Pursuant to the Business Operation Agreements [and the Management and Consultation Services Agreements], we have effectively re-deployed the employees, who assumed the management and supervisory role of the day-to-day operations of and previously employed by the PRC Operational Entities, to be under the employment of Zhuhai Technology. More importantly, in order to ensure the PRC Operational Entities are managed and operated in accordance with our Group’s instructions and to prevent misappropriation of assets and funds by the ultimate shareholder of the PRC Operational Entities (i.e., Mr. Shao), all the boards of directors and financial controllers of each of the PRC Operational Entities are nominated on [●] 2009 by our Group to allow for effective control. Currently, Mr. Shao is the ultimate beneficial owner and sole director of each of PRC Operational Entities.

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### *Legality of the Contractual Arrangements*

After taking all possible actions or steps to enable it to reach its legal conclusions, our PRC legal adviser is of the opinion that:

- (i) on the basis of applicable PRC laws and regulations and the reply from the relevant PRC government authorities [upon an unofficial verbal enquiry by our PRC legal adviser] that it is appropriate for a PRC legal adviser to give legal opinion as to the legality of the agreements constituting the Contractual Arrangements;
- (ii) each of the agreements, constituting the Contractual Arrangements, constitutes legal, valid and binding obligations of the parties thereto under the PRC laws; and the Contractual Arrangements as constituted by all the agreements mentioned above, individually and collectively as a whole, are in full compliance with all existing PRC laws and regulations and the provisions of the respective articles of association of the relevant companies that are incorporated in the PRC;
- (iii) save for the registration of the pledges created under the Equity Pledge Agreements in the register of members of the relevant PRC Operational Entities and subject to any new laws and regulations promulgated by the PRC government authorities to the contrary, no consents, approvals, permits or authorisations by any PRC government authorities is required under the prevailing PRC laws and provisions in connection with the execution, effectiveness and enforceability of the agreements constituting the Contractual Arrangements, either before or after the [●];
- (iv) the respective current businesses and operations of Zhuhai Technology and the PRC Operational Entities, as described in this document, are within the business scope as approved by the competent government authorities in the PRC and have not been punished by any PRC governmental authorities for violating their respective permitted business scope; and
- (v) each of Zhuhai Technology and the PRC Operational Entities has obtained all necessary approvals for its business.

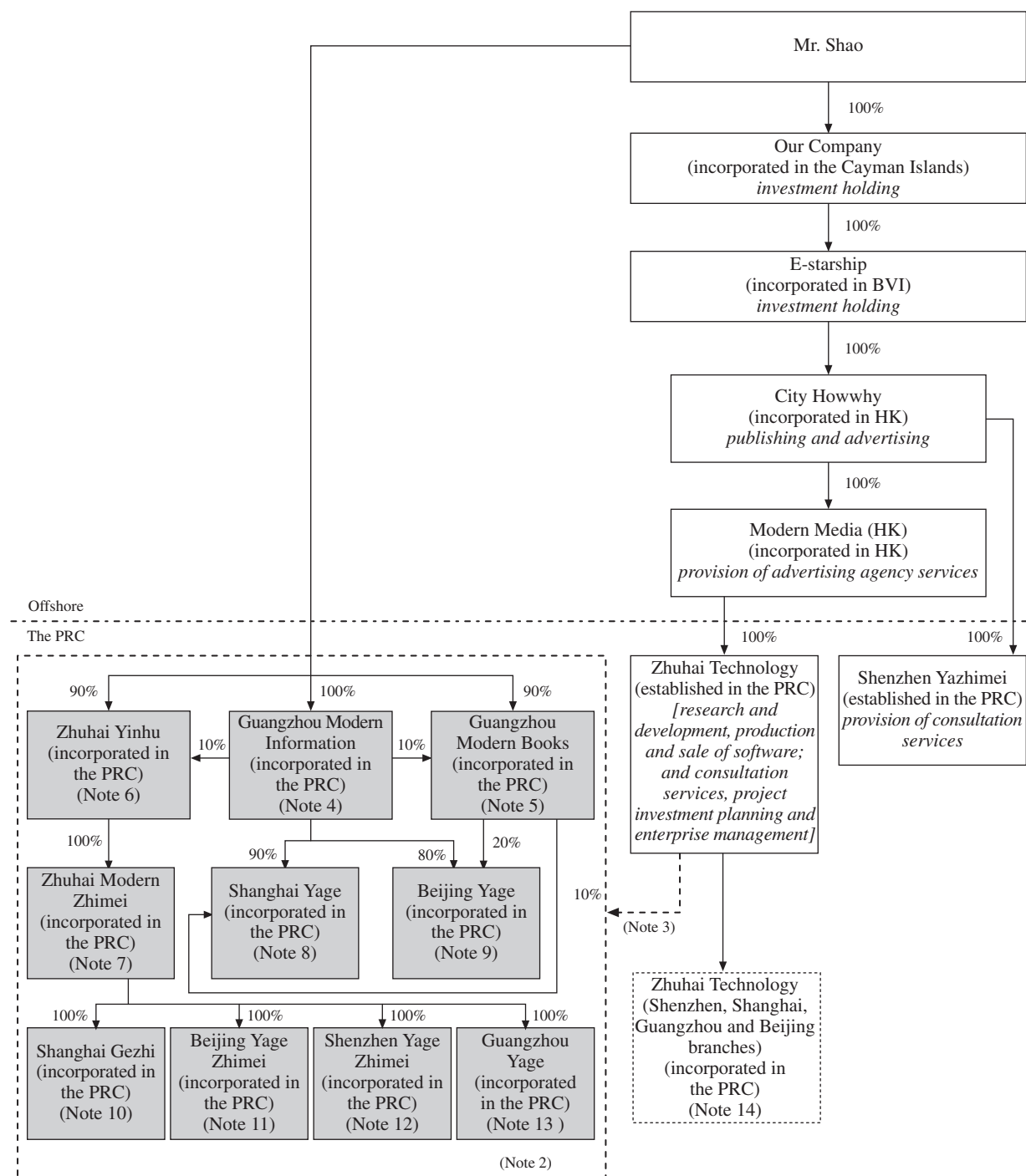
In addition, to the best knowledge of our Directors, the Contractual Arrangements are common arrangements adopted by the companies in the publication and media industry in the PRC that are operated and ultimately owned by foreign holding companies, and our Directors are not aware that the relevant PRC authorities have challenged other contractual or structural arrangements which are similar to the Contractual Arrangements.

There can be no assurance that the PRC governmental authorities (including GAPP) will not in the future take a view that is contrary to the above opinion of our PRC legal adviser. We have been further advised that if the PRC governmental authorities and courts find that the Contractual Arrangements (or any part thereof) do not comply with the PRC laws, each of the agreements constituting the Contractual Arrangements will have to be revoked and the transactions contemplated under these agreements shall not continue. We have been advised by our PRC legal adviser that save for the revocation of the agreements and discontinuation of the relevant transactions contemplated under these agreements, we will not be subject to any administrative penalties by the relevant PRC governmental authorities for the entering into and the implementation of these agreements since no filings, registrations, consents, approvals, permits, authorisations, certificates, licences by any PRC government authorities is required under the prevailing PRC laws in connection with the execution, effectiveness and enforceability of the agreements constituting the Contractual Arrangements. Please refer to the paragraph headed “We rely on the Contractual Arrangements.” in the section headed “Risk factors” in this document for a discussion of the relevant risk.

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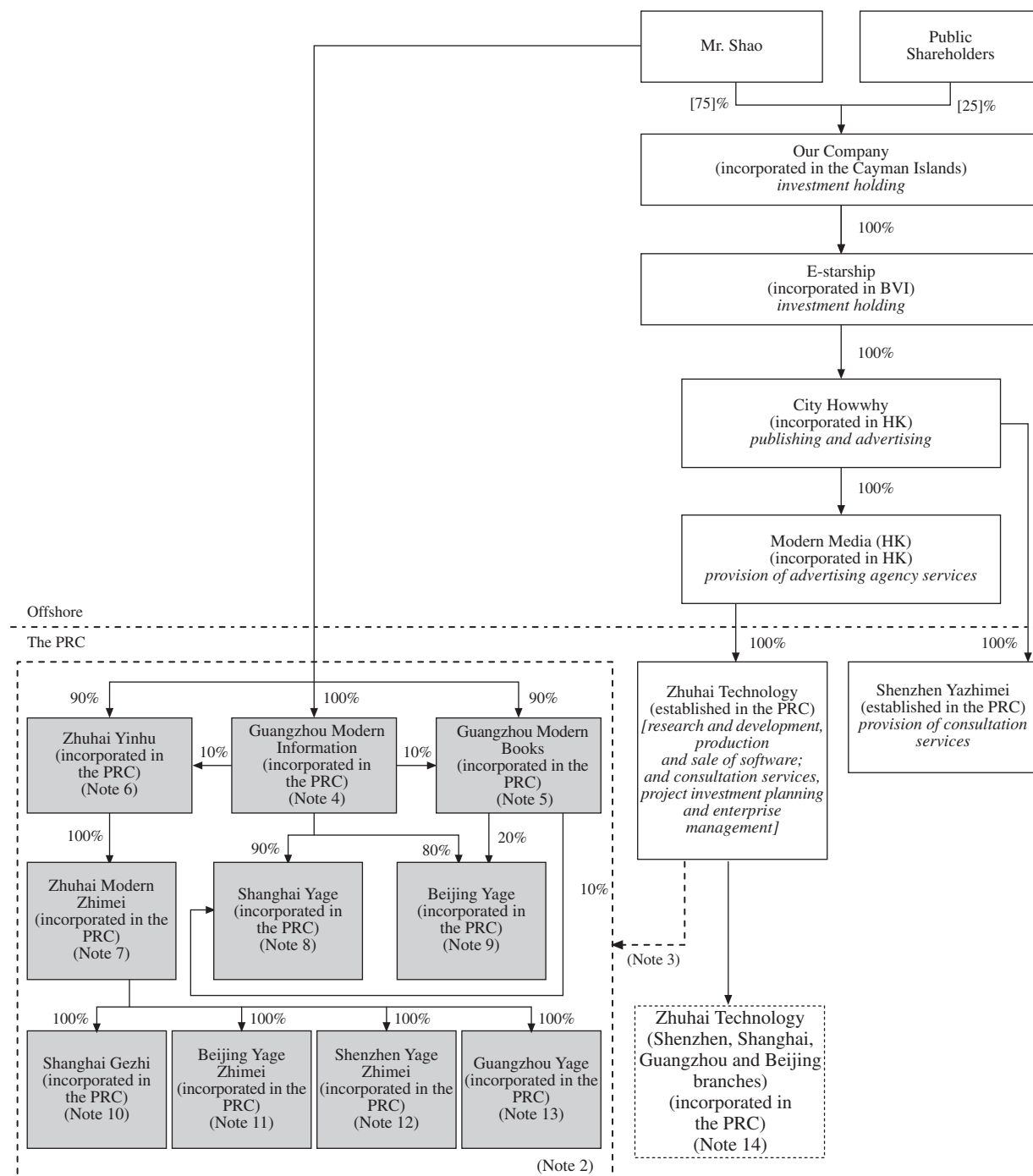
### GROUP STRUCTURE

The corporate structure and the principal activities of the members of our Group immediately after completion of the Reorganisation but prior to the Capitalisation Issue and the [●] (assuming [the [●] and] any options that may be granted under the Share Option Scheme are not exercised) are set out below:



## BUSINESS

The corporate structure and the principal activities of the members of our Group immediately following completion of the Reorganisation, the Capitalisation Issue and the [●] (assuming [the [●] and] any options that may be granted under the Share Option Scheme are not exercised) are set out below:



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## BUSINESS

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Notes:

1. “——” denotes direct legal and beneficial ownership in the equity interest and “\_\_\_\_\_” denotes contractual relationship.
2. Please refer to the paragraph headed “PRC Operational Entities” in this section for the description of each relevant company.
3. Please refer to the paragraph headed “Contractual Arrangements” in this section for the details of these arrangements.
4. Guangzhou Modern Information is principally engaged in the design, production and agency services of various advertisements; retail sale of the books, newspapers, periodicals edited and published in the PRC; planning of literary arts activities and exhibitions.
5. Guangzhou Modern Books is principally engaged in consultation services for books information; books presentation design; wholesale and retail sale for books, newspapers and periodicals edited and published in China.
6. Zhuhai Yinhu is principally engaged in the design, production, publication of advertisements and provision of advertising agency services.
7. Zhuhai Modern Zhimei is principally engaged in the design, publication and agency services for advertisements; consultation services for project planning, enterprise investment and economic information.
8. Shanghai Yage is principally engaged in the design and production of various advertisements and agency services for advertising business in the PRC.
9. Beijing Yage is principally engaged in the design, production, publication and agency services for advertisements in the PRC; organising cultural exchange activities and exhibitions.
10. Shanghai Gezhi is principally engaged in the design, production, publication and agency services for various advertisements, business information consultation and related business consultation services.
11. Beijing Yage Zhimei is principally engaged in the design, production, publication and agency services for advertisements; organising cultural exchange activities and exhibitions.
12. Shenzhen Yage Zhimei is principally engaged in advertising business.
13. Guangzhou Yage is principally engaged in the design of enterprise image, planning of enterprise ceremony, design, production, publication and agency services for various advertisements.
14. These branch offices of Zhuhai Technology are principally engaged in the research and development, production and sale of self-invented software and after-sale services, provision of consultation services on project planning, financial information and enterprise management and enterprise image planning. Neither of these branches is an independent legal person.



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## BUSINESS

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### PUBLICATIONS

#### Features and positioning of the Magazines

We consider the Magazines positioned as “international”, “exquisite” and “stylish”. Each one of the Magazines has its distinctive contents in order to satisfy a target group of readers and such targeted segmentation of readership of the Magazines in turn cater the needs of the diversified advertising customers.

Currently, the Magazines comprise two weekly and six monthly magazines. Our Directors consider that weekly magazines are our major growth driver since our target readers are more receptive to weekly magazines than to monthly magazines as the former provide more up-to-date information and have higher market exposure to the target readers and weekly magazines will also be more attractive to advertising customers for placing their advertisements. As such, following our success in operating “週末畫報” (Modern Weekly), we launched “優家畫報” (U+ Weekly) in late 2008 with a view to increasing our market penetration rate. Save for “號外” (City Magazine) which is published by our Group, all of the PRC Magazines are operated pursuant to various exclusive cooperation agreements we entered into with the PRC Publishing Partners. For details of such cooperation agreements, please refer to the paragraph headed “Cooperation agreements with the PRC Publishing Partners” in this section.

#### Weekly magazines

##### Magazines

“週末畫報”

(Modern Weekly)



##### Description of the Magazine

- *History, contents and target segments:* “週末畫報” (Modern Weekly), our flagship magazine which we have commenced operation since 2001, has a publication history of 28 years. Our Group has brought input of innovative and influential contents to “週末畫報” (Modern Weekly), turning it into a full-colour and glossy weekly magazine, thereby attracting the non-mainstream readership profile. Our target readership of “週末畫報” (Modern Weekly) is China’s elites between the ages of 20 and 45, well-educated with high disposable income and high standard of living.

“週末畫報” (Modern Weekly) is divided into four major sections, namely, News, Business, Lifestyle and Metro. This publication also provides readers with local and international news, global financial information, international lifestyles and consumption trends, as well as the various hot issues around the world. In addition, special supplementary issues will be produced from time to time to develop our Group’s cosmopolitan brand image and reputation for innovative ideas in the publishing industry.

- *Retail price per copy:* RMB5
- *Commencement of operation by our Group:* 2001
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 27.5 years until 2028

## BUSINESS

### Magazines

#### “優家畫報” (U+ Weekly)



### Description of the Magazine

- *History, contents and target segments:* “優家畫報” (U+ Weekly) is positioned as a women’s lifestyle magazine providing comprehensive and updated news and information regarding beauty, fashion, shopping, dining and entertainment. The target readership of “優家畫報” (U+ Weekly) is the educated and white-collar women between the ages of 25 and 39, with average to high income.

[Furthermore, we strategically market “優家畫報” (U+ Weekly) in the second tier cities of the PRC with considerable future market potential in order to attract a greater mass of female readers and to further increase our market penetration rate in the PRC.]

“優家畫報” (U+ Weekly) is a two-part weekly magazine including “修身篇” (personal management section) and “齊家篇” (family perfection section). “修身篇” mainly focuses on fashion, beauty, life quality and astrology information. “齊家篇” mainly focuses on leisure and food information, travel tips, family health and entertainment advice.

- *Retail price per copy:* RMB3
- *Commencement of operation by our Group:* 2007
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 19 years until 2025

### Monthly magazines

### Magazines

#### “新視綫” (The Outlook Magazine)



### Description of the Magazine

- *History, contents and target segments:* “新視綫” (The Outlook Magazine) is a creative lifestyle monthly magazine targeting at urban elites of the new-generation and the emerging creative class, who possess a keen fashion sense and are interested in international brands.

“新視綫” (The Outlook Magazine) focuses on promoting international, trendy and high quality creative lifestyle through four major innovative columns, namely, “Explore the perspectives of living”, “Access to the greatest creativity”, “Shine bright and right”, and “Think big, think different”, and to encourage our readers to transform their ways of living while redefining the quality of life and value of contemporary city elites. Certain well-known writers in the PRC have been invited as special columnists to write featured articles on creative lifestyles and living since 2008.

- *Retail price per copy of:* RMB20
- *Commencement of operation by our Group:* 2002
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 15 years until 2017

## BUSINESS

### Magazines

### Description of the Magazine

“號外”

(City Magazine)



- *History, contents and target segments:* “號外” (City Magazine), with a publication history of over 30 years in Hong Kong, was acquired by our Group in 2003. It presents global culture and lifestyle information through its creative literature and simplistic design. “號外” (City Magazine) aims to set its creative standard, seek improvement and evolution, and record the subtle change of our times amid the avalanche of information flow in the outside world. In 2008, “號外” (City Magazine) launched a travel-size edition as an innovative attempt to further explore editorial and visual possibilities. “號外” (City Magazine) is targeted at the elite class of readers in Hong Kong who has aspiration for lifestyle and cultural upbringing.

“號外” (City Magazine) reports the latest city lifestyle news from different parts of the world, provides updated information on brand new trends of art and designs as well as beauty and skin care, and incorporates conceptual pictures.

Supplements featuring different topics, including valentine’s day, women and men’s fashion, as well as watch and jewellery, are issued so as to attract more readers and advertisers.

- *Retail price per copy:* HK\$35 (Original edition) and HK\$25 (Travel-size edition)
- *Commencement of operation by our Group:* 2003
- *History, contents and target segments:* “生活月刊” (Life Magazine) promotes the “Heart of Life” attitude, style and value. By deploying the magazine as a platform, it aims to uphold and disseminate Chinese culture and national cultural confidence, and to encourage the pursuit of a high quality spiritual life.

“生活月刊”

(Life Magazine)



“生活月刊” (Life Magazine) is a book-like magazine with a combination of literature works and photography, and its target readership is upwardly-mobile managers, new intellectuals, inspiring entrepreneurs, and the Chinese upper classes, between the ages of 28 and 49, with high disposable income and strong consumption power. This publication contains nine regular columns with topics covering the entire spectrum of spiritual and secular life, emboldened with a touch of Chinese traditional culture and contemporary aesthetics.

- *Retail price per copy:* RMB50
- *Commencement of operation by our Group:* 2005
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 10 years until 2015

## BUSINESS

### Magazines

“汽車生活”  
(Auto Life)



### Description of the Magazine

- *History, contents and target segments:* “汽車生活” (Auto Life) is a lifestyle car magazine that focuses on the relationship between cars and daily life. It aims at showing how daily life and culture change after the inception of cars, and leading readers to appreciate cars from different perspectives, such as culture, art and technology. The target readership of “汽車生活” (Auto Life) is male readers who are car lovers and owners.

“汽車生活” (Auto Life) aims to provide comprehensive information on topflight cars, car content and test driving evaluation, new accessories of the latest popular cars, supplements with new and trendy high-tech products. It also provides interviews with executives of certain vehicle manufacturers’ and car designers and shares their living with cars.

- *Retail price per copy:* RMB20
- *Commencement of operation by our Group:* 2007
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 10 years until 2016

“健康時尚”  
(LOHAS)



- *History, contents and target segments:* The English title of “健康時尚” — LOHAS, is the acronym of “Lifestyle Of Health And Sustainability”, aiming at the promotion of healthy and sustainable lifestyle by providing readers with the latest news and information on worldwide healthy lifestyle. The target readership of “健康時尚” (LOHAS) is the growing mass of trendy, educated and independent female readers.

The contents of “健康時尚” (LOHAS) are divided into nine life cycles, namely, “New life”, “Beauty life”, “My life”, “Healthy life”, “Enjoy life”, “Above life”, “Care life”, “Cure life” and “Life cycle”, which are derived from the Chinese and oriental philosophy of beauty. These contents are accompanied with health tips, exercise manual, beauty and skincare knowledge.

In order to further promote the market awareness of “健康時尚” (LOHAS), quarterly supplementary copies are issued as LOHAS lifestyles, which feature topics on men’s and women’s beauty, as well as travel information.

- *Retail price per copy:* RMB10
- *Commencement of operation by our Group:* 2007
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 10 years until 2016

## BUSINESS

### Magazines

### Description of the Magazine

“大都市” (Metropolis)

Male edition



- *History, contents and target segments:* “大都市” (Metropolis), the latest publication we promoted, is an elite lifestyle magazine with separate editions dedicated to male and female readers respectively.

The male edition of “大都市(Metropolis)” is a men’s lifestyle magazine focusing on “Living, Style & Business” from the male perspective. Its target readership is middle and upper business echelons, decision makers, trendsetters and pillars of the city’s business community and social life between the ages of 25 and 49, who are well-educated, stylish, and attach great importance to the quality of their lives and lifestyle. This publication offers a variety of well recognised columns under the headings of “Feature”, “Topic”, “Focus”, “Celeb Bar”, “Men’s Trend”, “Scent of Women” and “Fashion”, providing latest business and lifestyle information to the new generation of male readers in the city.

- *Retail price per copy:* RMB[15]
- *Commencement of operation by our Group:* 2009
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 6.5 years until 2015

Female edition



- *History, contents and target segments:* The female version of “大都市 (Metropolis)” is a women’s lifestyle magazine focusing on “Fashion, Psychology & Living” from the female perspective. Its target readership is white collar women between the ages of 25 and 49. This publication has introduced a number of highly successful columns such as “Glamour”, “Vogue”, “Special Report”, “Trends 360 Degrees”, “Classic”, “Clothing” and “Office”, presenting comprehensive fashion and lifestyle information with first-class pictorial coverage to the new generation of female readers in the city.]

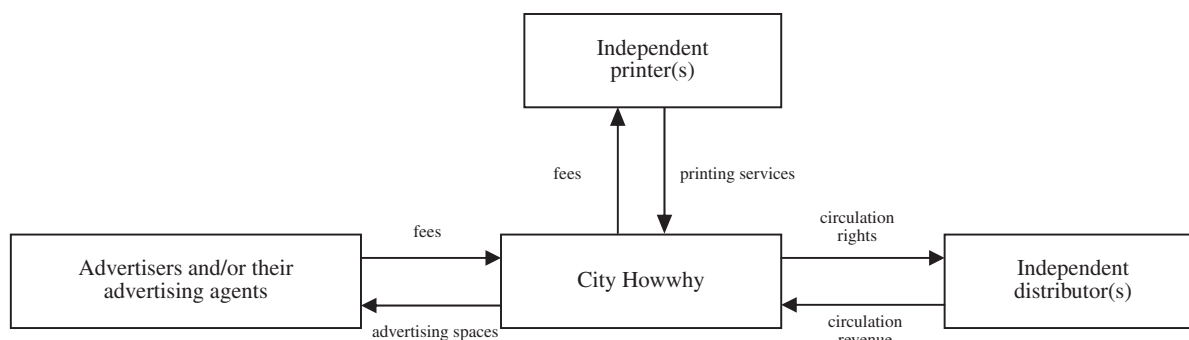
- *Retail price per copy:* RMB[15]
- *Commencement of operation by our Group:* 2009
- *Duration of cooperation agreement with the PRC Publishing Partner:* For an initial term of 6.5 years until 2015

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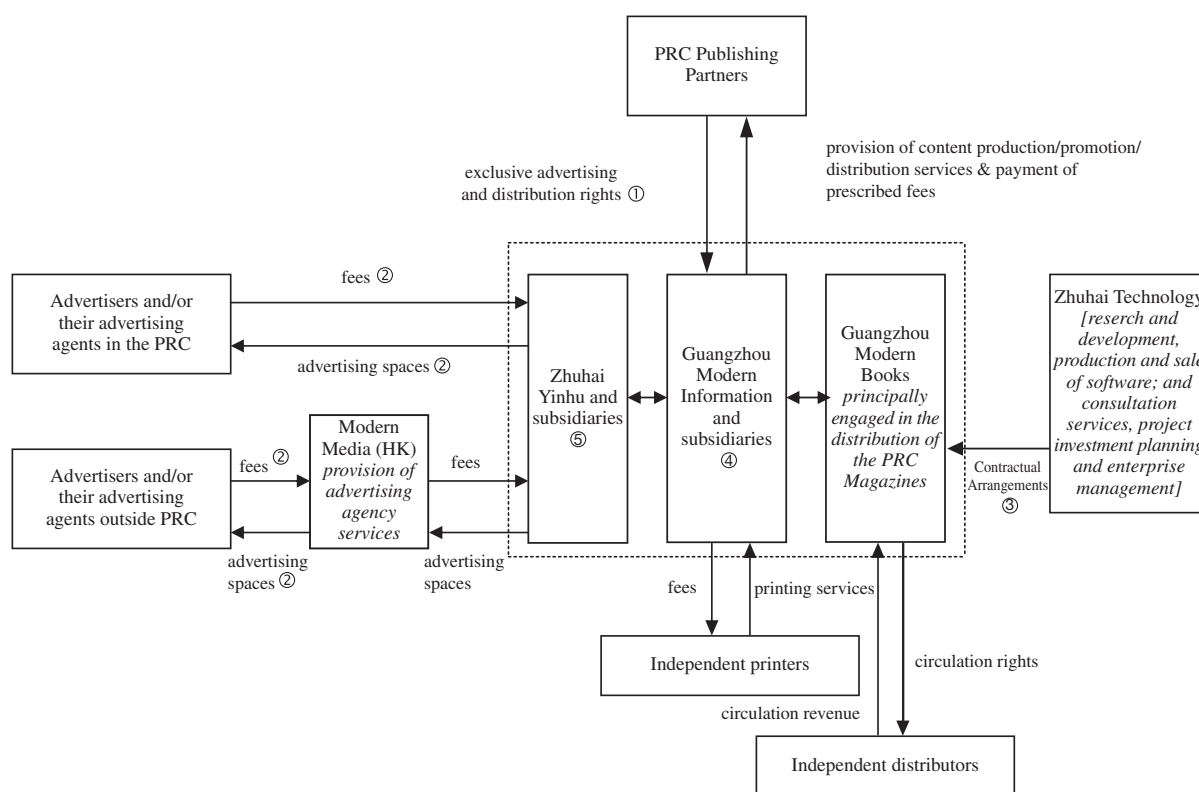
### MODE OF BUSINESS OPERATION

The simplified diagrams below illustrate the models of our existing business operations:

#### Business Model in Hong Kong



#### Business Model in the PRC



Notes:

1. Guangzhou Modern Information has acquired the exclusive rights to sell advertising spaces in and to distribute the PRC Magazines by providing content production, consultation, management, promotion, distribution and other supporting services (with the assistance of its fellow PRC Operational Entities) to the PRC Publishing Partners in relation to the PRC Magazines and paying prescribed fees to the PRC Publishing Partners through the cooperation agreements, details of which are disclosed in the paragraph headed “Cooperation with the PRC Publishing Partners” in this section.

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2. Please refer to the paragraph headed “Sales and marketing” in this section for details of sale of advertising spaces in Hong Kong and the PRC.
3. Please refer to the paragraph headed “Contractual Arrangements” in this section for the details of these arrangements.
4. Guangzhou Modern Information and its subsidiaries, Shanghai Yage and Beijing Yage, are principally engaged in the provision of content production services.
5. Zhuhai Yinhu and its subsidiaries, including Zhuhai Modern Zhimei, Shanghai Gezhi, Beijing Yage Zhimei, Shenzhen Yage Zhimei and Guangzhou Yage, are principally engaged in the provision of content production and advertising services.

## SALES AND MARKETING

Our Group devotes significant resources to strengthen the market recognition of our corporate brand “Modern Media” as a leading media company specialising in high quality Chinese-language lifestyle magazines which target well-segmented elite readership base in Hong Kong and the PRC, and to develop and maintain the relationship with our advertising customers, which are mainly brand advertising customers and their representative international advertising agencies in Hong Kong and the PRC. Our major source of revenue is 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. Also, we generate 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. As at the Latest Practicable Date, our Group has a sales team of over [100] employees and a marketing team of over [30] employees.

### Sale of advertising spaces

Our sales efforts primarily focus on the sale of advertising spaces in the Magazines to advertisers through their representative international advertising agencies, or, directly to brand advertisers. As at the Latest Practicable Date, our advertising sales team consisted of [109] sales staff, which are divided into [four] regional sub-teams focusing on different sales territories, namely, northern China, eastern China, southern China and [Hong Kong] with a view to maintaining proximity with our advertising customers. All regional sub-teams are supervised by the [sales and marketing director], who is responsible for formulating sales and marketing strategies of our Group.] Our sales team is mainly responsible for the sale of advertising spaces in the Magazines, soliciting new advertising customers and advertising agencies, handling enquiries and requests raised by our advertising customers, as well as managing the relationship with our advertising customers.

The distinctive features and readerships amongst the Magazines enable us to build our Mag-Form for specific advertising customers to choose and place advertisements in the relevant magazine that satisfies their advertising needs. As such, in addition to the sale of advertising spaces, we also provide integrated value-added advertising services and marketing solutions to our advertising customers through our Mag-Form. Such customers-oriented services mainly include (a) organising marketing events including award ceremonies, seminars, forums and cultural exhibitions, for or jointly with the advertising customers and we are mainly responsible for all the creative, technical and logistical elements such as event design, scriptwriting, logistics, budgeting, negotiation and client services; and (b) arranging specific topics and columns to be included in the contents of the Magazines, which act as a marketing channel to complement the individual advertising needs of the advertising customers and to promote their different products or services. Advertisers may request advertisements to be made

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in story formats, advertorial, brochures, special creative banners, brand posters, enlarged paper-size advertisements and supplements, which are all attached to the prominent position of the Magazines.

Our advertising customers place advertisements in the Magazines on different bases, ranging from issue by issue to annually. The selling price for advertising spaces is charged according to the per unit price, which is mainly determined on the basis of the size and location of the advertisement spaces in the magazine booklet as set out in the rate card for each of the Magazines, and which will be reviewed and updated by our Group's management annually with reference to our competitors' pricing strategies, the market conditions and the growth of our readership base of the respective magazines. As a general practice in the media industry in the PRC, we offer various discounts and incentives on the sale of advertising spaces to advertising customers based on a number of factors, including: (a) the length of business relationship between the relevant advertising customer and us; (b) the credit terms requested by the advertising customers; and (c) the frequency of the placement of advertisements in the Magazines. Such incentives, which mainly in the form of additional free advertising spaces offered to our selected advertising customers and effectively as an extra sales discount, are recognised in the income statement when they are used during the sales of advertising spaces and the value of which is determined on a contract-by-contract basis. During the Track Record Period, the value of incentives offered by our Group to our advertising customers was worth approximately RMB8.5 million, RMB14.4 million, RMB14.6 million and RMB3.7 million, respectively. In addition, our integrated and value-added advertising services are charged at fees to be negotiated between our Group and the advertising customers on a case-by-case basis.

Capitalising on our capability in marketing of advertising spaces and with a view to exploring the opportunity in the business-oriented magazine sector, we also cooperated with an Independent Third Party, who is an advertising firm located in Shanghai and was engaged by a holder of the Publishing Code in the sale of advertising spaces in, and the production of, a business-oriented magazine in the PRC during the Track Record Period. Under such cooperation, which commenced in [May 2006] without entering into a formal cooperation agreement, we were responsible for soliciting the sale of advertising spaces in, providing content production services to, and the distribution of, the relevant magazine. However, as we could not formalise the contractual relationship with that Independent Third Party and the holder of the Publishing Code regarding the relevant magazine, we agreed with the Independent Third Party in April 2009 to terminate the cooperation in the operation of such magazine from April 2009 so that we could properly re-deploy our management focus and human resources in the PRC Magazines and our operation. Our legal adviser has advised us that the aforesaid termination agreement is legally binding between us and the Independent Third Party, and we are not aware that we are subject to any actual claims and liabilities in connection with the termination of the cooperation.

Furthermore, in order to increase our competitiveness in the advertising business in the PRC and to better serve our advertising customers, we have developed the MMS, which is a customers' data management system for compiling the profile information of our readers. We also perform tailored market researches for our advertising customers to assist their marketing and promotional plans. Details of the MMS are disclosed in the paragraph headed "Information technology system" in this section.

### **Sale of Magazines**

Over the years, we have established an extensive magazine distribution network in Hong Kong and the PRC. Our Directors believe that an efficient and effective distribution and circulation network is an essential element in the constitution of our Mag-Form. Our magazine distribution team,



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comprising over [70] staff as at the Latest Practicable Date, work closely with our distributors and the agents or owners of the retail outlets to ensure timely distribution and sufficient public visual availability of the Magazines. In addition, we also arrange some promotional items, such as newsstands and posters displaying the Magazines, for our distributors to place them in the retail outlets. Apart from working closely with our distributors, we try to expand our readership through the promotion of direct subscription of the Magazines.

Please refer to the paragraph headed “Logistics and magazines distribution” in this section for details of our distribution of the Magazines. To a lesser extent, the sales of the Magazines are also conducted through direct subscription by the readers. The selling prices of the Magazines are set at the market prices and will be regularly reviewed by the sales team and our management team and will be adjusted in order to reflect the prevailing market conditions.

### **Our marketing activities**

To support the operation of our Group’s sales team, our marketing team is responsible for formulating different marketing strategies for the marketing and promotion of our Group and the Magazines and maintaining good business relationship with our Group’s past and existing advertising customers. The ultimate aim of the marketing team’s efforts is to arouse market awareness of our corporate brand “Modern Media” and the Magazines and to promote the influential effect of the Magazines in the high quality Chinese-language lifestyle magazines market in the greater China region.

Below is a detailed description of the major marketing strategies of our Group.

#### **(a) *Mass media promotion***

To enhance the awareness of the “Modern Media” brand (and indirectly the promotion of the Magazines and our advertising services), our marketing team will conduct general marketing and advertising activities through the traditional mass media, including but not limited to, outdoor advertisements featuring our corporate brand “Modern Media” and the Magazines’ cover pages on mass billboards of the subway stations, light boxes at the airports and high traffic public areas and poster stands in high-end shopping centres, distribution of marketing materials and advertising trailers on radio and the internet.

#### **(b) *Complimentary copies of the Magazines***

Complimentary copies of the Magazines are distributed regularly to strategically selected parties with a view to arousing public awareness of the Magazines and increasing the market exposure of the Magazines. These parties are selected discreetly as they target the same niche group of customers as we do. Selected parties include top-ranked hotels, leading serviced apartments, luxury car showrooms, airport VIP lounges, coffee chain stores, and major private lounges and clubs as well as certain advertisers and advertising agencies.

Through distribution of such complimentary copies of the Magazines, we aim at sharing the same customer base with the above distribution locations, thereby increasing the readership and market exposure of the Magazines and our advertising services among the target groups. The increased market exposure of our Group and the Magazines will in turn attract more advertisers to place advertisements in the Magazines.

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(c) *Special events and ceremonies*

We organise special marketing events, such as seminars, forums and cultural exhibitions, for or jointly with the advertising customers to develop and maintain good business relationships with them. Through such marketing events, we are able to promote our Group, the Magazines and the products of the advertisers.

In addition, we also organise awards ceremonies or campaigns, such as “Modern Weekly Best Restaurants Selection” and “National Spirit Achievers Awards jointly by “生活月刊” (Life Magazine) and Mercedes-AMG” for promoting various themes and ideologies that align with the respective Magazines and in awarding recognition of such upper echelons of the Chinese society, such as entrepreneurs, celebrities, editors, designers, advertisers, etc. These events and ceremonies serve as a means to complement the support of our existing advertising customers and to enhance the profile of our brand in order to attract potential advertisers. Also, we establish close relationship with renowned corporations, international brands, celebrities and artists so that we could further promote our brand and the Magazines.

(d) *Readers’ clubs*

We focus on continuously improving the contents of the Magazines, as we believe our readership base has developed primarily through word-of-mouth as a result of pleasant and satisfying reading experience. Our Group has set up various readers’ clubs for the Magazines to solicit comments and recommendations from the target readers, thereby improving the contents and presentation of the Magazines and advertisements to be placed in the Magazines, and to keep track of the subscription and circulation records of the Magazines in order to identify their readership patterns including the amount of sales in various locations and the age range or educational background of the readers. The marketing team will then analyse such information and formulate appropriate marketing strategies for different target groups in order to promote our brand and the Magazines further. For instance, the marketing team is able to identify areas with greater opportunities of potential readership growth, and thus allocate more marketing resources to attract advertising customers for target groups in those areas.

(e) *Advertising customers nurturing*

In addition to the above marketing strategies, our marketing team will work closely with our sales team in identifying our major customers on a regular basis and actively seek business opportunities with them. We also arrange meetings with customers to keep abreast of their changing needs from time to time and to receive constructive feedbacks on the quality of the Magazines and our advertising services. Although, as customary in the advertising industry, most of the brand advertisers engaged us through their designated advertising agencies, our sales and marketing teams also work closely with, or in some cases takes the initiative to make contact with, the relevant personnel of brand advertisers as well as constantly update those advertisers with our new advertising services and products, such as new campaigns and special issues of supplements, and seek feedbacks from them in order to maintain a good relationship for future business development.

## CUSTOMERS

Our customers comprise two groups: advertising customers and distributors (or readers in the case of direct subscription), all being Independent Third Parties. For the first group, most of these customers are advertising agencies including members of international advertising companies given the customary nature in the advertising industry as most of the brand advertisers (who may be considered as the end advertising customers of our Group) engage advertising media through their

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designated advertising agencies. As at 31 December 2006, 2007 and 2008, 31 March 2009 and the Latest Practicable Date, our customer base comprised approximately 208, 240, 223, 89 and [●] advertising agencies respectively. The decrease in the number of advertising agencies in our customer base as at 31 March 2009 as compared to that as at the three years ended 31 December 2008 can be ascribed to two factors: (a) the number of such customers as at 31 March 2009 only represented those customers who have placed advertisement in the Magazines during the first three months of the year which is of a shorter timeframe; and (b) as observed by our Directors, our advertising customers temporarily scaled down their promotional activities and advertising spending during the three months ended 31 March 2009 because the first quarter of each year is the traditional slack season of the luxury and leisure consumer goods market in the PRC, coupled with the then obscure economic conditions resulted from the global financial turmoil. Apart from these advertising agencies, we also have a broad base of advertising customers which include international brand of luxurious goods, such as watches and jewellery, fashion and accessories, cosmetics, food and beverages and leading domestic enterprises. Our Group has internal guidelines on the billing, granting of credit period, money collection and settlement arrangements in respect of our sales to the advertising agents and customers, and details of such are set out under the paragraph headed “Credit policy and control” in this section. Leveraging on the quality of our Group’s existing advertising customers and our established relationship with them, our Group is able to secure and attract more high profile advertising customers.

As for the second group of our customers, we engaged over [200] distributors during the Track Record Period, who are responsible for distributing the Magazines through their local point of sales and display spots including newsstands, supermarkets and bookstores, covering more than 20 major cities including second tier cities in the PRC and in Hong Kong (and less significantly, other places outside the PRC) for sale to the end readers. All of our distributors are Independent Third Parties. Details of the distribution method and coverage are set out under the paragraph headed “Logistics and magazines distribution” in this section.

During the Track Record Period, the sales to the advertising agencies contributed to a significant portion of our Group’s revenue which amounted to approximately RMB161.8 million, RMB203.0 million, RMB239.7 million and RMB40.3 million, respectively. As the major source of our income is derived from the sale of advertising spaces in the Magazines, our five largest customers during the Track Record Period are members of international advertising agents, who are Independent Third Parties established in Shanghai and Guangzhou, the PRC, and are principally engaged in, among other things, provision of research and development services in relation to consumption trend, media planning and purchase services, sponsorship consultancy and promotion of entertainment activities services. Our five largest customers have business relationship with our Group ranged between three to ten years and accounted for approximately 32.2%, 29.8%, 32.5% and 36.7% respectively of our Group’s Gross Revenue while the largest customer accounted for approximately 11.1%, 10.5%, 11.2% and 11.8% respectively of our Group’s Gross Revenue during the Track Record Period. None of the Directors, the chief executive, the substantial shareholders of our Company or any of their respective associates, which to the knowledge of our Directors own more than 5% of the issued share capital of our Company, has any interests in any of the five largest customers of our Group.

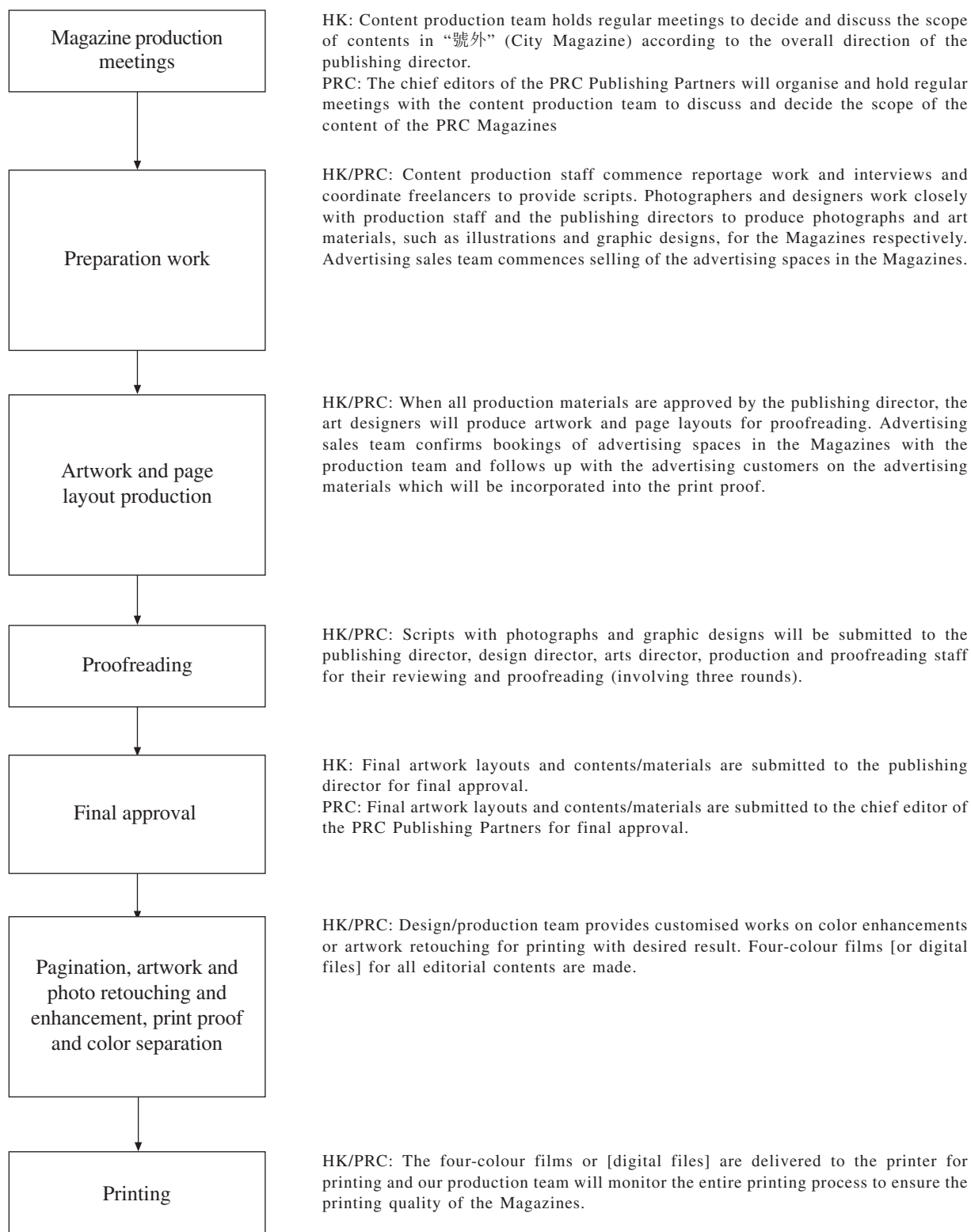
## MAGAZINE PRODUCTION

The following chart illustrates the overall production process of the Magazines. Since each Magazine has its own production team and the mode of our operation in Hong Kong and the PRC is slightly different as discussed under the paragraph headed “Mode of business operation” in this section, there may be certain discrepancies to the production process as illustrated below.

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### **Production of the Magazines**

Each of the Magazines has its own content production team which is responsible for the contents of the Magazines, layout design, artwork production and advertorial production. The content production team holds regular meetings to decide and discuss the scope of contents to be included in the Magazines. The publishing director is in charge of the overall production process of the Magazines. In the case of the PRC Magazines, the chief editors appointed by the PRC Publishing Partners are responsible for formulating the overall directions of the contents to be included in the PRC Magazines. Journalists and scriptwriters are responsible for reporting and maintaining the contents integrity and style of the Magazines. Designers are responsible for the design, artwork production, presentation and page layout of the Magazines. The contents of the Magazines are relatively independent from each other and there is a minimum level of sharing of magazine production expertise and management resources among the Magazines. In order to ensure the overall image and artistic quality of the Magazines are up to high standards, the artwork production of each of the Magazines are also supervised by the chief art director of our Group and final approval for the artworks of each of the Magazines is required from such chief art director.

With the support of the strong content production team of City Howwhy, whose members have substantially instilled the content production teams of the PRC Magazines with their vision on the international horizon and their liaison between the western and Chinese culture, the content production team of each of the Magazines is able to produce high quality contents for the Magazines. During our content production process, we also purchase certain licensed materials, from time to time, for reproducing certain contents, texts, photos, pictures and the like in the Magazines. In addition, as at the Latest Practicable Date, we entered into license agreements with three Independent Third Parties, who are international association of newspapers disseminating international news, commentaries, analysis, columns and comments to its member associations, on 22 October 2007, 30 October 2007 and 24 February 2009, respectively, for the right to use or incorporate the contents, photos and pictures provided by them into the Magazines. The three licensing agreements are (i) for a term commencing from the date of the license agreement until the termination by either party with a three-month prior written notice to the other party, (ii) for a term of one year which will be automatically renewed for successive terms of one year until the termination in writing by either party 60 days prior to expiration of the then existing term; and (iii) for a term of one year, respectively. The licensing fees are determined on an arm's length basis and are on normal commercial terms which are payable monthly at a fixed amount or calculated based on the number of piece of licensed materials incorporated in the Magazines. The total amount we paid for the abovementioned licensed materials during the Track Record Period were approximately RMB1.2 million, RMB1.4 million, RMB1.6 million and RMB0.3 million respectively. The copyright in the translations of the licensed contents/articles contained in the Magazines belongs to the licensors or the original copyright owner of the licensed contents/articles, and our Group is not allowed to publish or allow another party to publish such licensed materials in another newspapers other than in those stipulated under the license agreements, and the licensed materials cannot be used for promotional or advertising purposes. 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. With a view to minimising our exposure to the above risk, we assign experienced personnel to be responsible for the purchases of such licensed materials and set up guidance and internal procedures for entering into such licensing agreements or purchases of licensed

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materials. In addition, in order to ensure that the usage of the licensed materials is in strict compliance with the terms under the license agreements, in some cases, our Group provides to the licensors a copy of each publication in which licensed materials are incorporated for their inspection and confirmation. As at the Latest Practicable Date, our Directors were not aware of any breach of the terms of the license agreements. Our PRC legal adviser has advised us that there are no procedures stipulated under the prevailing laws of the PRC regulating the above purchase of licensed materials with the three Independent Third Parties by our Group, nor are there any approval procedures or registration by the relevant authority for such purchase.

In respect of the contents of advertisements, pursuant to the laws and regulations of the PRC, any advertising customers who publish, broadcast and place advertisements shall submit to the advertisement operator the originals or valid copies of their certificates. The advertisement operator shall then inspect the aforesaid certificates and examine the contents of the advertisements during advertisement production and dissemination. Advertisements not complying with the legal requirements of the PRC shall not be published, broadcast and placed. Advertisement operators are prohibited from assisting advertisers to commit fraud or publish advertisement the contents which are prohibited by the PRC laws. Our PRC legal adviser has advised us that the PRC Operational Entities shall examine the relevant certificates and advertisement contents provided by our advertising customers as required. In the event that the advertisement operators breach the laws and regulations of the PRC, various penalties may be imposed depending on the seriousness of the breach in question, including the circulation of a notice of criticism, the confiscation of the illegal gains, the termination of the publication of the illegal advertisements, or the imposition of a fine on the advertisement operators which amount will be in the region of three times of the illegal earnings and up to the maximum of RMB30,000, or the advertising operator may be ordered to be suspended from business operations for rectification and its business license may be revoked, or if the breach amounts to a crime, the criminal responsibilities shall be investigated. 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 on 25 May 2007. 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. According to the determination of Shanghai Huangpu branch of the SAIC, Shanghai Gezhi paid for the aforementioned illegal gains and fine on 25 May 2007. Save for the administrative penalties above, no other administrative penalties were imposed on our Group in relation to the contents of advertisements during the Track Record Period.

Once the features and articles have been prepared by our journalists and scriptwriters and reviewed by the publishing director, they are typeset by the typesetting staff. Related photographs are selected by scriptwriters, together with the art designers, for each story and article and then scanned into computer file format. The art designer, under the supervision of the content production team, will prepare artwork layout for the publishing director's amendment and approval. The finalised pages are then prepared for colour separation films for printing. Advertisers normally provide digital files or films on the contents and artwork of their advertising pages for our prior approval. The content production team is then responsible for checking if the aforesaid are in accordance with the terms and conditions as set out in the advertising sales agreements, as well as the relevant laws and regulations under which the Magazines incorporating such advertisements are published. The content production team, together with the sales team, decide on the pagination of the Magazines. The publishing director and the circulation team decide on the print run of the Magazines. The final artwork layout and contents/materials are submitted to the publishing director and (in the case of the PRC Magazines) the chief editor of the PRC Publishing Partners for final approval.

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### Cooperation agreements with 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, Guangzhou Modern Information has entered into various exclusive cooperation agreements with the PRC Publishing Partners who are the Independent Third Parties and own or hold the relevant Publishing Codes and publication licence with respect to the relevant PRC Magazines and hold or have the relevant licenses and rights in relation to the publication of the relevant PRC Magazines. All of the PRC Publishing Partners are state-owned publishing units established in the PRC and are categorised as the organising unit, the supervising unit and the publishing entity in accordance with 關於出版單位的主辦單位和主管單位職責的暫行規定 (Interim Regulations on Responsibilities of the Organising Unit and the Supervising Unit of the Publishing Entity\*). Our Group started our first cooperation with the PRC Publishing Partners in respect of “週末畫報” (Modern Weekly) in 2001 (and subsequently with the same group of the PRC Publishing Partners on the cooperation of “優家畫報” (U+ Weekly) in 2008) through the connection of Mr. Shao in the cultural sector. Subsequently, thanks to our successful operation of “週末畫報” (Modern Weekly), we were approached by others potential PRC Publishing Partners for the cooperation of magazines and publications in the PRC. As it is our intention to cooperate with such PRC Publishing Partners on those magazines which themes are aligned with our position, i.e., “international”, “exquisite” and “stylish” for life-style magazines, we chose to partner, among others, with the existing PRC Publishing Partners for the cooperation of “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).

Pursuant to each of the exclusive cooperation agreements with the respective PRC Publishing Partners, we, through Guangzhou Modern Information, are required to pay certain prescribed fees either monthly or yearly, and which are determined between Guangzhou Modern Information and the relevant PRC Publishing Partners after arm’s length negotiation and on normal commercial terms (including the pricing and payment terms thereof) with reference to the market practices in the PRC. The prescribed fees were determined through arm’s length negotiation between our Group and the respective PRC Publishing Partners. In return, we have acquired the exclusive rights to sell advertising spaces in the PRC Magazines and distribute the PRC Magazines for the PRC Publishing Partners. We are then responsible for providing content production, consultation, management, advertising and other supporting services to the PRC Publishing Partners for their publication of the relevant PRC Magazines. 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. Moreover, pursuant to such cooperation agreements, our Group is entitled to receive the gross amount of the income from the operation of the relevant PRC Magazines, and is responsible for all the costs associated with the production of the PRC Magazines, which include production staff costs, printing costs and content production costs.

The PRC Publishing Partners, who are the legal publisher and owner of, and hold the publication right of the relevant PRC Magazines, have the right to appoint the chief editor of the relevant PRC Magazines, participate in formulating the editorial direction and have the final editorial right over the contents of the PRC Magazines. Moreover, these publishing partners are also responsible for reviewing the contents we produced to ensure that contents in the PRC Magazines comply with the relevant PRC laws and regulations regarding the censorship of publication contents and handling all procedural formalities in connection with the publication of the PRC Magazines and obtaining all necessary licenses in connection with the PRC Magazines. As Guangzhou Modern Books is a holder

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of the valid 中華人民共和國出版物經營許可証 (Publication Operation Licence of the PRC\*), Guangzhou Modern Information has delegated Guangzhou Modern Books to arrange for the distribution of the PRC Magazines on behalf of the PRC Publishing Partners through our own sales and marketing channels as disclosed in the paragraph headed “Sales and marketing” in this section. The terms of the existing cooperation agreements range from around six to over 20 years (with the earliest expiring in May 2015 and the latest in December 2028), the duration of which, as our Directors believe, aligns with the normal practice in the media industry in the PRC. Our Group has been given the first right of refusal in relation to the renewal of the cooperation agreements upon their expiration. As at 31 December 2006, 2007 and 2008, 31 March 2009 and the Latest Practicable Date, our Group, through Guangzhou Modern Information, entered into cooperation agreements with five, seven, seven, [seven] and eight PRC Publishing Partners, respectively. Our Group has been having one to eight years of business relationship with such PRC Publishing Partners.

Pursuant to the cooperation agreements, upon any breach of the terms in the cooperation agreements by Guangzhou Modern Information or by any of the PRC Publishing Partners, the breaching party is required to compensate the other party all the damages the other party suffers and is subject to a fine. In the event of the termination of any of the cooperation agreements by the PRC Publishing Partners or by Guangzhou Modern Information, including but not limited to the cases where the Publishing Code of any of the PRC Publishing Partners is revoked by the relevant government authorities due to the default of the PRC Publishing Partners during the term of the relevant cooperation agreements, the terminating party is required to compensate for the damages suffered by the other party and is subject to a penalty ranging from one to three years of the relevant prescribed fees depending on the terms prescribed in the respective cooperation agreements.

To the best knowledge of our Directors after making all reasonable enquiries, the PRC Publishing Partners have obtained respective 期刊出版許可證 (periodical publication licence\*) and/or 報紙出版許可證 (newspaper publication licence\*) issued by the 新聞出版管理部門 (Press and Publication Management Authority\*) and can engage in those publication and cooperation activities as stated in the aforementioned licenses; and the PRC Publishing Partners are qualified and have the rights to carry out the businesses with Guangzhou Modern Information according to the terms prescribed in the respective cooperation agreements.

In addition, we have been advised by our PRC legal adviser that:

- (i) the cooperation agreements are valid and legally binding on the relevant parties and the operation of the PRC Operational Entities is in compliance with the relevant PRC regulations;
- (ii) although some of the PRC Magazines, including “週末畫報” (Modern Weekly) were already in issue well before our Group’s involvement through the relevant cooperation agreements, our Group is not subject to any risks or liabilities from any antecedent breaches or defects related to those PRC Magazines since the civil rights and obligations in respect of the cooperation agreements entered into between Guangzhou Modern Information and the relevant PRC Publishing Partners only arose upon such agreements becoming effective;
- (iii) the cooperation arrangement under the cooperation agreements does not constitute any selling, leasing or transferring of name, the Publishing Code or layout by any of the PRC Publishing Partners or any lending, transferring, leasing or selling of the PRC Publishing Partners’ periodical publication licence or newspaper publication licence prescribed by 期刊出版管理規定 (Provisions on the Administration of Periodical Publication\*) and



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報紙出版管理規定 (Regulations on the Administration of Newspaper Publication\*), the cooperation agreements entered into by Guangzhou Modern Information and the PRC Publishing Partners hence do not constitute a breach of the applicable PRC laws as disclosed in section headed “Regulatory overview” in this document;

- (iv) 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 also bear the legal liabilities for those content materials that it has provided to the PRC Publishing Partners and cause the infringement of intellectual property rights or any defamation actions;
- (v) if either Guangzhou Modern Information or the relevant PRC Publishing Partners are being claimed or sued for infringing intellectual property rights of any third parties by virtue of the contents of the PRC Magazines, the party which has borne such legal liabilities in excess of the portion that it is obliged to bear as a result of such claim or suit shall have the right to request the other party to reimburse for the excess portion of legal liabilities under the PRC laws; and
- (vi) if either our Group or the PRC Publishing Partners are wrongly sued by a claimant for any intellectual property rights infringement or defamation actions, our Group or the PRC Publishing Partners have the right to request that claimant to bear the related compensation of such wrongful actions under the PRC laws.

In addition to the above, 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 “Production of the Magazines” above for further details.

Until recently, we noted from the promulgation of 關於進一步推進新聞出版體制改革的指導意見 (Guiding Opinions on Further Facilitating the Reform on the Press and Publication System\*) that the State of the PRC encourages and supports non-state owned publishing entities to participate in the investment in the cultural sector. However, these guiding opinions or decisions have merely set out the broad principles in relation to the investment in the cultural sector in the PRC and in encouraging the establishment of non-state-owned publishing entities but have not stipulated any specific guidelines or procedures for the establishment of publishing entities by non-state-owned corporation. To the best knowledge of our Directors, there has not been any non-state-owned publishing entity in the PRC to date. In the future, we may consider establishing our own publishing entity for the publication of new magazine with our own Publishing Code when any new laws and regulations have been introduced to permit foreign investment in publishing companies.

### **Printing**

The Magazines are printed by independent printers in Hong Kong and the PRC respectively. Our Group’s production team will attend printing and monitor the whole printing process to ensure that the printing quality is up to the standards as required by our Group.

### **Quality control**

Our Directors consider that the ability to maintain the quality of the contents of the Magazines is crucial to the long term growth and reputation of our Group. Therefore, we place great emphasis on preventive measures in the quality control process. With the aim of identifying, analysing and

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solving irregularities at the earliest possible stage of the production process, these measures are implemented at various stages of the production process including: resources management, contents editorial management, photographs editorial management, proofreading management, design and production management, advertisement quality management, printing quality management, complimentary production quality management and marketing management. Our Group selects the independent printers in Hong Kong and in the PRC which hold qualification certificates such as ISO9000 or whose printing quality has been recognised in the printing industry.

Our Directors believe that our Group has established a good reputation in the PRC Magazines market as a result of our commitment to magazine quality, which is one of the key factors to our success.

### LOGISTICS AND MAGAZINES DISTRIBUTION

Currently, our Group has a distribution team consisting of over [70] employees located in more than [20] major cities across Hong Kong and the PRC to handle the logistics and distribution of the Magazines in Hong Kong and the PRC. During the Track Record Period, the Magazines were mainly distributed through wholesale distributors in Hong Kong and the PRC and were, to a lesser extent, sold directly to retail outlets or through subscription.

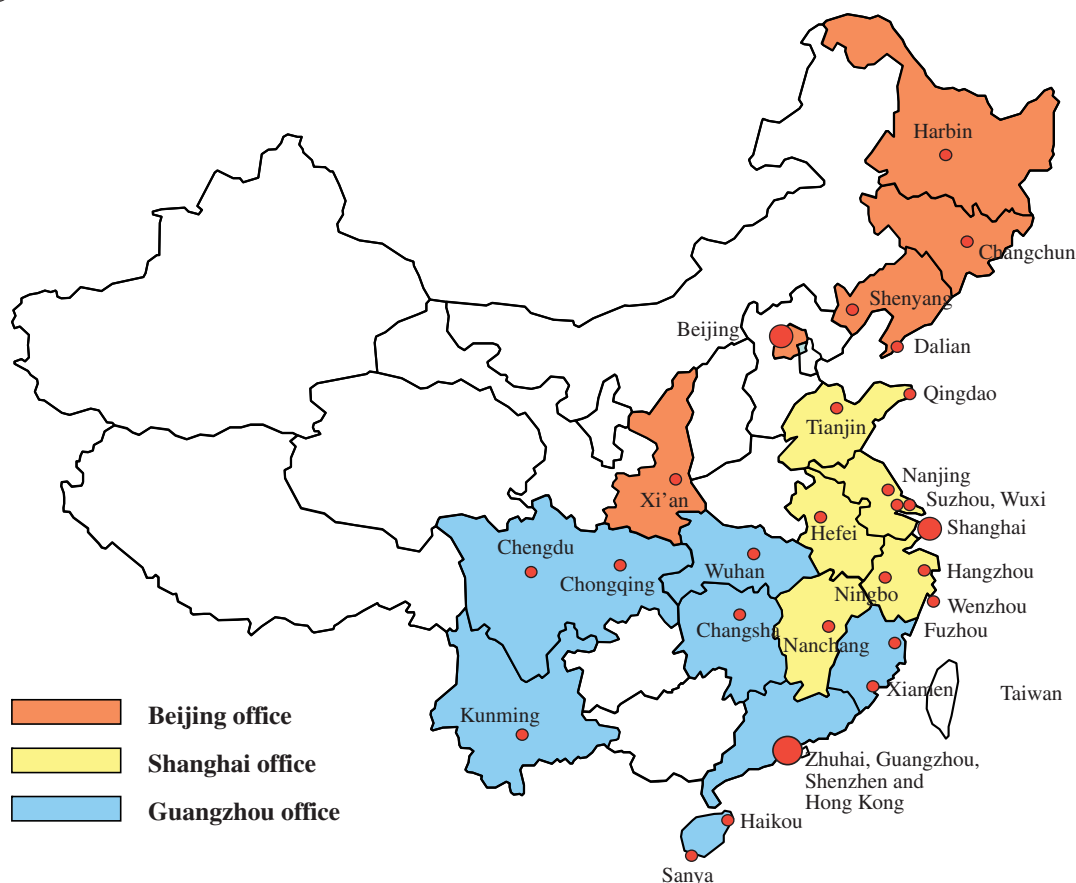
Once the Magazines have been printed and bounded by the printers, the Magazines will be delivered to our Group’s designated offices in Shanghai, Beijing, Guangzhou and Hong Kong as well as locations designated by our distributors. Thereafter, the distribution teams in the aforesaid offices will coordinate with and monitor our distributors for distribution of the Magazines in the respective cities. As at 31 December 2006, 2007 and 2008, 31 March 2009 and the Latest Practicable Date, we engaged one distributor for the distribution of “號外” (City Magazine) in Hong Kong and approximately 200, 270, 230, 220 and [220] distributors respectively for the distribution of the PRC Magazines in the PRC. Such distributors are mainly owners of newsstand chains and book stores, and publication wholesalers, with vast experience, which ranges from five to 20 years, in the publication distribution industry. 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. During the Track Record Period, we also distribute “號外” (City Magazine), although less significantly, to Macau, the United States, Canada, Australia and the United Kingdom. Our distributor has been responsible for arranging for the overseas distribution. Our distributor has confirmed to us that there has been no litigation (be it court claim, arbitration or otherwise) arising from the distribution of “號外” (City Magazine) in those overseas places. Our Group has been having business relationships with such distributors for three to ten years. The distributors are selected on the basis of, among other things, their reputation, financial credibility, and flexibility in cooperating with our Group based on our Group’s past experience.

We normally enter into standard annual or fixed term distribution agreements with our distributors which require them to distribute the Magazines in the designated distribution areas. Under these distribution agreements, the distributors are required to sell the Magazines on behalf of our Group by onward distributing them to local retailers and return those unsold Magazines to our Group. The return periods of the Magazines range from seven days to 90 days from the date of publication of the Magazines. In general, our standard distribution agreements usually have a term of four months to three years which will be automatically renewed unless any of the parties otherwise disagrees, and each party may terminate the distribution agreement by giving another party not less than one month’s notice. In return, our Group offers certain discounts, which range from 25% to 50%, off of the standard retail price of the Magazines to the distributors in acquiring each of the Magazines, and the distributors are allowed to further sell the Magazines to the local retailers at a lower discount rate. Depending on the terms prescribed in the respective distribution agreements, our Group will reimburse

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part of the delivery cost of the Magazines to the distributors in respect of their onward distribution of the same to the local retailers. The amounts of delivery cost reimbursed to the distributors were approximately RMB143,000, RMB297,000, RMB345,000 and RMB217,000 for each of the three years ended 31 December 2008 and the three months ended 31 March 2009, respectively, and such reimbursement was determined through arm’s length negotiation. The distributors are required to report to our Group the number of Magazines actually sold and the reporting periods range from 30 days to 90 days. Revenue regarding our Group’s sales to the distributors is recognised when the Magazines are delivered to the distributors after taking into account the amount of estimated return of the Magazines. In the following month, upon receipt of the information in respect of the actual return of the unsold copies of Magazines from the distributors, the differences between the actual return and the estimated return will be adjusted to the circulation income in the income statement. During the Track Record Period, unsold copies of the Magazines were returned to our Group within seven to 90 days from the date of publication of the relevant Magazines, and revenue was initially recognised net of the estimated returns of unsold copies of the magazines based on management’s experience. Our Group generally bills the distributors for their purchase either weekly or monthly, and in certain cases, once every two months. The credit period granted to the distributors for their purchase of the Magazines from our Group is 50 days for the distributor in Hong Kong and ranges from 30 to 270 days for the distributors in the PRC.

The diagram below shows our distribution hubs we have identified and the major cities where the Magazines are distributed:



- Notes:
1. The respective distribution zones by our Group’s offices in Beijing, Shanghai and Guangzhou are indicated in different colour shadings above.
  2. The distributions in Hong Kong and overseas are managed by our Group’s office in Hong Kong independently.

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The distribution team of our Group regularly reviews the actual sales record of each distributor and sales location to ensure sufficient distribution volume. At the end of a publication period, our distribution team will collect all the unsold Magazines from the retailers and re-distribute them as complimentary copies to selected parties in order to attract more readers from the target groups as well as to promote the Magazines. In addition, our Group provides internal guidelines for our distribution team to ensure efficiency in distributing the Magazines through the various channels. For example, our distribution team has to pay regular visits to points of sales at the airports and newsstands to ensure that the Magazines are being displayed at a prominent spot that can attract readers’ attention easily. Our Group encourages compliance with the internal guidelines by granting awards to distribution staff with good performance and non-compliance with the internal guidelines will result in a punishment or penalty.

Our sales team will also closely monitor the sales volumes of the Magazines, and report its reviews and findings to our distribution team regularly. The distribution team will then formulate and implement circulation strategies so as to improve the cost effectiveness and efficiency of the distribution of the Magazines.

### MAJOR AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of significant awards and recognitions by government authorities and recognised organisations with respect to our Group and the Magazines respectively and these awards and recognitions, we believe, signify our leading position in the media industry in the PRC and the high quality of the Magazines:

#### *Magazines*

Magazines	Awards and recognitions	Year of grant	Award/grant/issuing organisation
“週末畫報” (Modern Weekly)	2005-2006年度中國最具價值媒體100強 (China’s Top 100 Most Valuable Media in 2005-2006*)	2006	中央電視台 (China Central Television*) (Note 1), 中國傳媒大學 (Communication University of China*) (Note 2)
	全國城市生活服務類週報綜合競爭力10強 (Top 10 Competitors of National Weeklies on Urban Life Service*)	2006	GAPP (Note 3)
	第二屆中國傳媒創新年會: 2006年度十大創新週報 (China Media Innovation Forum: Top 10 Innovative Weeklies in 2006*)	2007	北京大學新聞與傳播學院 (School of Journalism & Communication of Beijing University*) (Note 4)

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<b>Magazines</b>	<b>Awards and recognitions</b>	<b>Year of grant</b>	<b>Award/grant/issuing organisation</b>
	首屆中國傳媒領軍人物年會暨第三屆中國傳媒創新年會: 2007年度中國十大領軍報業 (China Media Leaders Forum & China Media Innovation Forum: China’s Top 10 Leading Newspaper in 2007 *)	2008	傳媒雜誌社 (Chuanmei Magazine Society*) (Note 5), 北京大學新聞與傳播學院 (School of Journalism & Communication of Beijing University*) (Note 4), 清華大學新聞與傳播學院 (School of Journalism & Communication of Tsinghua University*) (Note 6)
	2008 中國標杆品牌 (China Benchmark Brand 2008*)	2008	哥倫比亞新聞評論中文版 (Columbia Journalism Review (Chinese)) (Note 7)
	第四屆中國傳媒創新年會暨中國傳媒改革三十年論壇: 十大創新傳媒品牌、十大周報品牌 (China Media Innovation Forum & 30 Years of China Media Reform Forum: Top 10 Innovative Media Brand, Top 10 Weeklies Brand*)	2008	傳媒雜誌社 (Chuanmei Magazine*) (Note 5), 北京大學新聞與傳播學院 (School of Journalism & Communication of Beijing University*) (Note 4), 清華大學新聞與傳播學院 (School of Journalism & Communication of Tsinghua University*) (Note 6)
“新視綫” (The Outlook Magazine)	2005 Awards for Editorial Excellence: Certificate of Excellence for Magazine Front Cover Design	2005	The Society of Publishers in Asia (Note 8)
	2005 Awards for Editorial Excellence: Honourable Mention for Magazine Design	2005	The Society of Publishers in Asia (Note 8)
	2009 Awards for Editorial Excellence: Honourable Mention for Magazine Design	2009	The Society of Publishers in Asia (Note 8)

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<b>Magazines</b>	<b>Awards and recognitions</b>	<b>Year of grant</b>	<b>Award/grant/issuing organisation</b>
“生活月刊” (Life Magazine)	2007 Awards for Editorial Excellence: Certificate of Excellence for Magazine Design	2007	The Society of Publishers in Asia (Note 8)
	2008 Awards for Editorial Excellence: Honourable Mention for Magazine Front Cover Design	2008	The Society of Publishers in Asia (Note 8)
	2008 Awards for Editorial Excellence: Certificate of Excellence for Special Issue or Special Section	2008	The Society of Publishers in Asia (Note 8)
	2009 Awards for Editorial Excellence: Award of Excellence for Feature Photography	2009	The Society of Publishers in Asia (Note 8)
“號外” (City Magazine)	2005 Awards for Editorial Excellence: Certificate of Excellence for Magazine Design	2005	The Society of Publishers in Asia (Note 8)
	2007 Awards for Editorial Excellence: Honourable Mention for Magazine Design	2007	The Society of Publishers in Asia (Note 8)
	2008 Awards for Editorial Excellence: Honourable Mention for Magazine Design	2008	The Society of Publishers in Asia (Note 8)
	2009 Awards for Editorial Excellence: Award of Excellence for Magazine Design	2009	The Society of Publishers in Asia (Note 8)

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### Corporate

Awards and recognitions	Year of grant	Award/grant/issuing organisation
2009 中國傳媒產業經營管理論壇: 2008 — 2009 年度中國十大最具 投資合作價值傳媒產業公司 (China Media Product Operation and Management Forum 2009: Top 10 China Media Company Most Worth Invest In & Cooperate With in 2008 - 2009*)	2009	傳媒雜誌社 (Chuanmei Magazine Society*) (Note 5)

None of the awards or certificates obtained by our Group was revoked or terminated as at the Latest Practicable Date.

#### Notes:

1. 中央電視台 (China Central Television\*) is the largest state-owned television station in the PRC and is directly supervised by the PRC central government. To the best knowledge of our Directors, it is regarded as one of the most famous and creditable media entities in the PRC.
2. 中國傳媒大學 (Communication University of China\*) was founded in 1954 in Beijing. To the best knowledge of our Directors, this university is particularly specialised in journalism, visual art and information technology and is also a major national research base in the field of media and communication.
3. GAPP is the highest administrative body responsible for supervising the press and publication affairs in the PRC.
4. To the best knowledge of our Directors, 北京大學新聞與傳播學院 (School of Journalism & Communication of Beijing University\*) is a journalism school in the Beijing University, one of the most famous and historical universities in China. Beijing University is the first Chinese university which set up the school of journalism and has built a leading position in the media industry of China. The journalism school currently offers undergraduate, graduate and doctoral programs in the area of journalism and communication.
5. 傳媒雜誌社 (Chuanmei Magazine Society\*) is a professional journal published by GAPP in Beijing. To the best knowledge of our Directors, this journal is perceived to be the most authoritative journal in the PRC media industry.
6. 清華大學新聞與傳播學院 (School of Journalism & Communication of Tsinghua University\*) is a journalism school set up in 2002 by 清華大學 (Tsinghua University\*), one of the most famous and historical universities in China. The school is set up with an aim to provide training and international exposures to students talented in the area of media and journalism. With the strong resources support of 清華大學 (Tsinghua University\*), 清華大學新聞與傳播學院 (School of Journalism & Communication\*) has developed rapidly and gained social recognition since its establishment.
7. 哥倫比亞新聞評論中文版 (Columbia Journalism Review (Chinese)) is the Chinese edition of Columbia Journalism Review, which was founded in the United States in 1961 by the Columbia University Graduate School of Journalism, a highly creditable school of journalism in the world. The inaugural Chinese edition of Columbia Journalism Review was released in 2008. 哥倫比亞新聞評論中文版 (Columbia Journalism Review (Chinese)) is a bi-monthly journal and its editorial mission is to examine the media industry and to report on current issues in the politics, environment, business and other areas.

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8. To the best knowledge of our Directors, The Society of Publishers in Asia was a non-profit organisation founded in 1982 to promote, maintain and manage both local publishers and local representatives of foreign publishers in Asia, with a view to fostering better cooperation and understanding among members and enhancing the professional standing of publishers in Asia and aims to protect their interests. It is based in Hong Kong and represents more than 46 international, regional and local media companies in Hong Kong and around Asia, responsible for more than 200 publications. It also works to establish standards and guidelines for publishers relating to issues such as quality control, professional development, circulation, advertising and new media. The Society of Publishers in Asia is dedicated to best practices in professional publishing and it represents the interests of both local and international media brands in Asia. It facilitates training and events and is active in lobbying on government reforms affecting the media and information industries throughout Asia. Underlying all activities of The Society of Publishers in Asia is an uncompromising dedication to and promotion of, the best traditions of independent, responsible journalism and freedom of the press, which is a vital component of all free societies.

The Awards for Editorial Excellence by The Society of Publishers in Asia was established in 1999 as a tribute to editorial excellence in both traditional and new media and was designed to honor excellence and to encourage editorial vitality throughout the region. The awards cover a broad range of categories, including the excellence in special issue or special section and excellence in magazine design, which reflect the diversity of Asia's geo-political environment and vibrant editorial scene. To encourage entries from both large and small publications, entries are classified by circulation size and language type, either English or Chinese. A panel of three judges is appointed to judge each category, comprising experienced journalists and former journalists from around the world. The judges assess and discuss the entries and decide on the winner. In the case of questions or a deadlock, they will seek the assistance from the director of judges, who is a member of the editorial board of The Society of Publishers in Asia. The judges and director of judges are chosen so as to ensure that there are no conflicts of interest or potential conflicts of interest with the publications in the category judged by them.

## SUPPLIERS

Our Group's major suppliers are the printers and logistic service providers, which are all Independent Third Parties. The printers are responsible for providing printing services and paper supply for the printing of the Magazines. Printing and paper expenses accounted for approximately 54.4%, 48.9%, 50.4% and 51.0% of our Group's total cost of sales for each of the three years ended 31 December 2008 and the three months ended 31 March 2009, respectively.

It is the policy of our Group to identify various potential printers according to the amount of publication estimated, and to communicate with those potential printers on our Group's publications, demands and printing criteria. Those potential printers will then formulate policies according to our Group's specifications and demands. Our Group will choose among those policies with reference to the costs and benefits of each, and engage the printers which offer the most beneficial plans to our Group. Having negotiated with the target printers on the prices and terms of printing, our Group will enter into contract with the printers for the upcoming printing services.

As at the Latest Practicable Date, we engaged one printer in Hong Kong and two printers in the PRC in respect of the printing services and paper supply for the Magazines. We chose these printers based on various criteria, such as the printing quality, delivery time and pricing. Our Group's production team monitors the entire printing process to ensure that the printing quality is up to the standards required by us. The printing agreements with these printers are of varying terms ranging from one year to not more than three years. Our Directors consider that the terms of engagement of these printers are arrived at after arm's length negotiation and are fair and reasonable and therefore there is no material risk relating to the reliance on these printers for our Group's printing services.



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During the Track Record Period, our Group had not experienced, in Hong Kong or in the PRC, any material disruption to the printing process of any of the Magazines and there had not been any material defect in the relevant printing and paper quality of the Magazines.

We require services of the logistic companies, who are Independent Third Parties, to deliver the Magazines to our distributors. For each of the three years ended 31 December 2008 and the three months ended 31 March 2009, the amount incurred for our distribution and delivery cost accounted for approximately 7.1%, 4.6%, 5.9% and 8.3% respectively of our Group's selling and distribution expenses.

During the Track Record Period, we had not experienced any material disruption in the logistic services provided by the third party logistic operators for the delivery of the Magazines.

For each of the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2009, the five largest suppliers accounted for approximately 71.0%, 68.4%, 73.3% and 73.9% of our Group's total purchases respectively, while the largest supplier accounted for approximately 34.2%, 50.6%, 54.4% and 59.2% of our Group's total purchases respectively. None of our Directors, our chief executive, our substantial shareholders or any of their respective associates and shareholders of our Company, which to the knowledge of our Directors own more than 5% of the issued share capital of our Company, has any interests in any of the five largest suppliers of our Group.

### CREDIT POLICY AND CONTROL

Our Group adopts the stringent credit control procedures in order to minimise potential credit risks.

In respect of the sale of advertising spaces in the Magazines, we normally provide our advertising services on an order-by-order basis or pursuant to sales contracts with the advertising customers (including both advertising agencies and brand advertising customers). Normally, new advertising customers are assessed by personnel of appropriate levels for their creditability and the granting of different credit terms when they enquire our advertising services. For new advertising customers, payment in advance is normally required by our Group. However, we generally grant to our existing or regular advertising customers credit terms ranging from 60 days to 90 days, which we believe is aligned with the general credit terms offered in the advertising industry. Credit terms of a comparatively longer period, say, 90-day credit period, will be subject to the approval of local general manager or the chief executive officer of our Group. The advertising income is recognised upon the publication of the Magazines in which the advertisements are placed. Our sales and marketing department will then send the issues of the Magazines in which the advertisements are placed to the advertising customers and issue bills to them for payment, stating thereon the length of credit periods granted. In return, the advertising customers will send us a "magazine issuance acknowledgment" as a receipt confirmation. The advertising customers will settle our bills by way of bank cheques or telegraphic remittance and we will then deliver the invoices to the advertising customers. The settlements from the advertising agents are not conditional on the corresponding settlements from the end advertisers since the contracting parties with our Group are the advertising agents but not the end advertisers. Therefore, the advertising agents would bear the legal liabilities for the non-settlement of any outstanding advertising billings.

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With respect to the distribution of the Magazines, we normally enter into with our distributors [annual or fixed term] distribution agreements, which will indicate the estimated sales quantity and settlement of the sales amount on the actual sales quantity shall be made to our Group generally within 50 days in Hong Kong and 30 days to 270 days in the PRC after the verification of the actual sales quantity of the Magazines. As for distribution of the Magazines to the subscribers, payment in advanced is required by our Group.

Our customers are required to settle the bills by cheque or through bank remittance within the relevant credit periods. Records of credit period granted and payments are kept in both of our accounting and the sales and marketing departments so that both departments can monitor and follow-up on the payment progress by our customers. Our accounting department takes the primary responsibility of overseeing the whole credit control process of our Group, including the issuance of billings to the customers, the identification of the amounts of accounts receivables and reporting any overdue amounts to the sales and marketing teams.

Upon notification of overdue amounts from our accounting department, our sales and marketing teams staff will take appropriate actions to follow up on the collection of payment from the relevant customers.

According to our Group's credit policy, provision for bad debts is made when there is objective evidence that collection of the full amount is no longer probable, and such provision is made on a case-by-case basis. Cases under which legal actions were taken yet outstanding debts were still not recovered were written off. The accounts for the defaulting customers will be blocked and no further advertising services or distribution order of the Magazines will be accepted from such customers.

As a result of our stringent credit control, bad debt provision as at the balance sheet dates of the three years ended 2008 and as at 31 March 2009 only amounted to RMB158,000, RMB617,000, RMB608,000 and RMB428,000 representing approximately 0.1%, 0.2%, 0.2% and 0.7% of our Group's sales respectively.

## INFORMATION TECHNOLOGY SYSTEM

We believe that information technology system is fundamental to our efficient management and operations and plays an important role in our success and future growth. We rely on our information technology system in key areas including sales, promotional activities, brand management, as well as financial and sales information analysis. During the Track Record Period, we invested an aggregate of approximately RMB2.6 million in various information technology system, software and related supporting works.

In view of the increasing market demand for our advertising services, and the global market trend of software development for advertising business, we have established a software development team to manage our information technology system and specifically, to develop a comprehensive information system that caters for our unique business operation model. In 2008, our software development team successfully developed, and launched, the MMS, which has obtained a certificate of computer software copyright from 中華人民共和國國家版權局 (National Copyright Administration of the PRC\*) and is applied for efficient management and provision of advertising services. The MMS is a unique and tailor-made enterprise resource planning system that is designed principally to facilitate efficient management and provision of advertising services by our Group.

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Key functions featured in the MMS include, among other things:

(i) *Contract management*

Our sales staff can retrieve from the MMS the standard terms and formats of contracts for the sales of advertising spaces and related services so that the sales persons are able to complete the advertising sales contracts for our advertising customers, and staff with appropriate authority can then preview and approve such contracts in the MMS in order to facilitate and speed up the process of contract confirmations with our advertising customers.

(ii) *Order placing management*

The system prioritises advertising customers’ orders for a particular position in the Magazines on a first-come first-served basis. An ordering schedule indicating the sizes and positions of all the advertisements in a particular issue of the Magazines can therefore be arranged and previewed by the respective personnel for production in the Magazines.

(iii) *Customer relationship management*

In the MMS, our sales persons are able to (a) perform regular checks on the availability of advertising spaces in the Magazines for our advertising customers, and where appropriate to reserve suitable advertising spaces for them accordingly; (b) arrange for advertising contracts for the advertising customers once reservation is made; (c) retrieve the background information and products/brands details of each advertising customer served from the database for their better understanding of each advertising customer; and (d) make use of precedent advertising projects for different advertising customers as case study materials for reference in formulating advertising strategies for other advertising customers. This system facilitates knowledge flow and sharing among different departments in our Group as well as among the sales persons.

(iv) *Pagination functions*

The MMS offers functions for adjusting page layouts, arranging pagination and setting out all the prices of advertising in different columns in the Magazines.

Since the launch of the MMS, we have not experienced any material system failure that resulted in the interruption of our operation or substantial loss. We are constantly upgrading our information systems, which we believe will enhance efficiency in our operations.

## INSURANCE

Insurance coverage for our Group’s operations was in place, which covers risks including loss or damage to property, employees’ compensation and business travel loss and accidents. Based on industry practice in Hong Kong and the PRC, our experience in running our businesses and insurance products currently available in Hong Kong and the PRC, our Directors believe that the amount of insurance coverage is adequate for our Group under our current size of operations.

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### LEGAL AND COMPLIANCE MATTERS

Save as disclosed below, we conduct our operations and carry out our business in strict compliance with applicable laws and regulations in all material aspects in the PRC and Hong Kong. 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. As such, we retain competent legal advisers, who are Independent Third Parties and are not employees of our Group, on an annual basis to advise us on matters relating to our business, such as intellectual property matters and litigations arising out of or in connection with the ordinary course of our business.

Save for legal proceedings as a plaintiff relating to claims arising in the ordinary course of our business, including a claim of trade receivables from an advertising customer in the PRC amounted to approximately RMB428,000, which we made full provision in 2008, our Group was not involved in any litigation, claim, administrative action or arbitration of material importance as at the Latest Practicable Date.

We have been advised by our legal advisers as to Hong Kong laws and PRC laws that we (including the PRC Operational Entities) have obtained all requisite permits, licences and approvals from relevant authorities to legitimately conduct our businesses and operations in accordance with all relevant laws and regulations in Hong Kong and the PRC.

Our Directors consider that during the course of our Group’s daily operation as a media company, our Group does not have any compliance obligations as to environmental protection. In addition, pursuant to the contracts entered into between the independent printers and our Group, the independent printers are responsible for sourcing and supplying the printing papers necessary for the printing of the Magazines. As far as our Directors are concerned and aware of, the independent printers have obtained all of the necessary licenses (including the licenses relevant to its compliance with relevant laws and regulations as to environmental protection) to engage in the printing businesses in the PRC and Hong Kong, and our Group had not experienced any material defect in the relevant printing and paper quality of the Magazines. Since our Group does not directly deal with and have any agreements with any paper suppliers, our Directors are not aware of any applicable laws and regulatory risks relevant to the issues of environmental protection.

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Save for the inadvertent breaches of certain of the laws and regulation of the PRC as disclosed, we have been advised by our legal advisers as to PRC laws and Hong Kong laws that our Group has complied with the applicable laws and regulations in the PRC and Hong Kong in all material aspects and have not been penalised by national or local authorities for violations of applicable laws and regulations in the PRC and Hong Kong, which are of material importance or could have a material adverse effect on our results of operations:

Name(s) of our group company(ies)	Breach of requirement (relevant period)	Reasons for the breaches	Potential maximum penalty/fine	Remedial actions
Zhuhai Technology	Failure to submit information for annual review (for the year ended 31 December 2006)	Since Zhuhai Technology was not yet acquired by our Group, the default could be ascribed to the omission by the then owner or management of Zhuhai Technology.	According to an administration disciplinary decision advice issued by the local industrial, commercial and administrative management bureau to which Zhuhai Technology is subject, a fine of RMB3,000 has been imposed.	<p>Zhuhai Technology has paid the penalty and was issued the payment receipt, and has passed the annual review for the two years ended 31 December 2006 and 2007. Our PRC legal adviser has confirmed with us that Zhuhai Technology will not be subject to any further penalty by the local industrial, commercial and administrative management bureau in respect of this matter.</p> <p>Zhuhai Technology has implemented policy that the management staff should provide relevant information to the local industrial, commercial and administrative management bureau or other relevant government organisations for all future annual inspections.</p> <p>In addition, upon the [●], our Group will retain competent legal advisers to ensure strict compliance of any inspection requirements to which each of our subsidiaries and the PRC Operational Entities are subject. As such, the occurrence of non-compliance with relevant corporate laws and regulations will be minimised.</p>

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Name(s) of our group company(ies)	Breach of requirement (relevant period)	Reasons for the breaches	Potential maximum penalty/fine	Remedial actions
	Failure to submit tax registration and notifications with the local tax bureau in 2006 and 2007	Since Zhuhai Technology was not yet acquired by our Group, the default could be ascribed to the omission by the then owner or management of Zhuhai Technology.	According to a confirmation issued by the local tax authority to which Zhuhai Technology is subject, fines of RMB250 and RMB5 in respect of the 2006 and 2007 tax registrations, respectively, were imposed.	<p>Zhuhai Technology [has already paid the fine] and our PRC legal adviser has confirmed with us that [Zhuhai Technology will not be subject to any further penalty by the local tax authority in respect of this matter.]</p> <p>Upon the [●], our Group will retain qualified auditors to conduct the audit and (if applicable) the review of the financial statements of each of our subsidiaries and the PRC Operational Entities before their release in compliance with the Listing Rules. As such the occurrence of non-compliance with relevant tax laws and regulations will be minimised.</p>
Guangzhou Modern Information	Failure to submit accurate information for the calculation of EIT in accordance with the EIT Law (for the two years ended 31 December 2005 and 2006)	Omission and misunderstanding of the accounts department/staff in accounting entries as to those tax deductibles or expenses exempted from tax purposes in the financial statements submitted to the local tax authority.	According to a preliminary administration advice issued by the local tax bureau to which Guangzhou Modern Information is subject, fines of RMB181,602.36, accounting for RMB85,289.65 (outstanding 2005 EIT payment), RMB23,667.88 (late payment fee for 2005 EIT payment) and RMB72,644.83 (penalty for 2005 and 2006 default EIT payment), were imposed.	<p>Guangzhou Modern Information has paid the outstanding EIT payment and penalty, and our PRC legal adviser has confirmed with us that [Guangzhou Modern Information will not be subject to any further penalty or liability by the local tax authority in respect of this matter.]</p> <p>Guangzhou Modern Information has implemented policy that the accounting staff should provide the financial statements to the local tax representative or adviser to assist the computation of the relevant financial statements before submission to the tax authorities.</p> <p>In addition, upon the [●], our Group will retain competent auditors to conduct the audit and (if applicable) the review of the financial statements of each of our subsidiaries and the PRC Operational Entities before their release in compliance with the Listing Rules. As such, the occurrence of non-compliance with relevant tax laws and regulations will be minimised.</p>

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Name(s) of our group company(ies)	Breach of requirement (relevant period)	Reasons for the breaches	Potential maximum penalty/fine	Remedial actions
Zhuhai Yinhu	Failure to submit tax registration and notification with the local tax bureau in 2007 and 2008	In respect of the default in 2007, Zhuhai Yinhu was not yet acquired by our Group and the default could be ascribed to the omission by the then owner or management of Zhuhai Yinhu. As to the default in 2008, the omission occurred shortly after the acquisition from the then owner of Zhuhai Yinhu by our Group and the omission could be ascribed to omission during the transition of the management of Zhuhai Yinhu.	According to a notice and preliminary administration penalty advice issued by the local tax authority to which Zhuhai Yinhu is subject, a fine in the aggregate amount of approximately RMB1,500 was imposed.	Zhuhai Yinhu has already paid the fine and the PRC legal adviser to our Group has confirmed with us that [Zhuhai Yinhu will not be subject to any further penalty or liability by the local tax authority in respect of this matter.]  Upon the [●], our Group will retain competent auditors to conduct the audit and (if applicable) the review of the financial statements of each of our subsidiaries and the PRC Operational Entities before their release in compliance with the Listing Rules. As such, the occurrence of non-compliance with relevant tax laws and regulations will be minimised.

## INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights are of material importance to our business. To protect such proprietary rights, we rely upon the applicable patent, trademark and copyright laws, laws relating to protection of other intellectual property rights. We also impose confidentiality obligations on our employees and protect our copyrights by requiring our employees, in particular, the editorial and design personnel, to undertake to us on confidentiality and non-competition.

As at the Latest Practicable Date, the trademarks , , 优家 You Family, 优家画报 , , LIFEMAGAZINE, Lifestyle Of Health And Sustainability and  were still pending registration in the PRC. We understand that 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*) normally renders a decision on trademark applications in about [36] months following its receipt of all the required application and supporting documents. If the application is preliminarily approved, the relevant trademark will be published for [three] months during which the public may raise opposition to such trademark registration application. If no opposition is filed against the trademark being applied for registration within such period, 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*) will proceed to registration for the relevant trademark and issue the certificate of registration for the relevant trademark. Since the applications for the registration of the trademarks  and  were filed in June 2007 and that of 优家 You Family was filed in October 2007, therefore, our Group expects that the registration of such trademarks be completed by the end of 2010. In addition, the application for the registration of the trademarks 优家画报 , , LIFEMAGAZINE, Lifestyle Of Health And Sustainability and  were filed in [July] 2009, and our Group expects that the registration of such trademarks be completed [by the end of 2012.] We are not aware that there is any material legal impediment for us to obtain the due registration of these trademarks, of which the applications have been duly lodged with 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*).

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We have not obtained trademarks registration in the PRC for 生活, and our previous application for registration of a trademark LOHAS in July 2007 in relation to the periodical “健康時尚” was once rejected by 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*) in June 2009, as certain third parties have applied for the registration of the trademarks “樂活市 LOHAS” and “生活 CITYMAGAZINE” in April 2006 and March 2007, respectively, and a third party has registered the trademark “時尚健康” on 21 September 2001, all under product category 16 that generally covers periodicals, and which are similar to the names of our periodicals “健康時尚” and “生活月刊”. We and the PRC Publishing Partners who hold the Publishing Codes in respect of the periodicals “健康時尚” and “生活月刊” only became aware of such applications or registration in respect of the trademarks “時尚健康” and “樂活市 LOHAS” in early July 2009, and in respect of “生活 CITYMAGAZINE” in late May 2007.

Our Group intends to oppose the registration of trademark “生活 CITYMAGAZINE” by the third party, and in this connection, our Group has engaged 中國國際貿易促進委員會專利商標事務所 (CCPIT Patent and Trademark Law Office) to monitor the progress of the application for that trademark registration by the third party from 10 June 2009 to 9 June 2010. 中國國際貿易促進委員會專利商標事務所 (CCPIT Patent and Trademark Law Office) will notify our Group once the application for registration of the relevant trademark by the third party has been preliminarily approved after which the relevant trademark will be published for three months and our Group may then raise opposition to such trademark registration application during that three-month period. Since we have already entered into a cooperation agreement with the PRC Publishing Partner who holds the Publishing Code for “生活月刊”, if the use of trademark “生活 CITYMAGAZINE” by the third party is considered an infringement of our Group’s prior intellectual property rights, our Group is entitled to raise opposition to the registration of the trademark “生活 CITYMAGAZINE” by the third party within the aforementioned three-month period from when such registration is preliminarily approved. 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*) will make the final decision on the registrability of the subject trademark.

Moreover, pursuant to the applicable PRC laws, the use of the name or similar name of another entity or its products that results in consumers confusing one service or good with another is deemed to be unfair competition and is prohibited. As such, our Group is entitled to request the competent PRC authorities to determine whether the lodgement of application for the registration of the trademark “生活 CITYMAGAZINE” constitutes unfair competition against our Group pursuant to the applicable PRC laws. The competent PRC authority shall make the final decision. In the event that the use of the trademark “生活 CITYMAGAZINE” is regarded as unfair competition against our Group by the relevant PRC authorities, our Group may request the relevant PRC authorities to grant an injunction order for the continued use of the trademark.







In addition, the trademark in respect of “汽車生活 CARLIFE” has already been registered by another party but under product categories 1 and 3 and service category 39 which generally cover automobile chemical products, chemical products and logistics services and are distinctly different from those which our mark **AutoLife** 汽車生活 would cover. Since a particular trademark registered by a party in one product or service category does not preclude the registration of identical or similar trademarks in other product or service categories by another party, in this regard, our Group has, at the Latest Practicable Date, engaged 中國國際貿易促進委員會專利商標事務所 (CCPIT Patent and Trademark Law Office) to lodge the application for the registration of “**AutoLife**” 汽車生活 under product category 16 which generally covers periodicals.






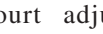


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Our Directors are of the view that there will be no material adverse impact on our Group’s normal business or our ability to conduct business in connection with the pending registration of the trademarks , , 优家 You Family, 优家画报U<sup>+</sup>, , LIFEMAGAZINE, Lifestyle Of Health And Sustainability and  or the non-registration of the trademarks  and . Our Group has not applied for the relevant trademarks in the first instance because our Directors believed that it was sufficient to protect the periodical name of the relevant PRC Magazines by entering into cooperation agreements with the relevant PRC Publishing Partners holding the Publishing Codes as under the PRC laws, a Publishing Code shall only be used for the publication of one periodical with its unique periodical name. The logos and/or marks of the relevant PRC Magazines are then relatively less important as a new design can always be adopted instead. As further protective measures, our Group designed new logos and/or marks for the periodicals “健康时尚” and “生活月刊”, and arranged to apply for trademark registration of such new logos in the PRC in July 2009. Pending successful trademark registration of such new logos and/or marks in the PRC, we would from then onwards cease to use the existing logos of the periodicals “生活月刊” and “健康时尚” in the event that the trademarks “乐活市 LOHAS” and “生活 CITYMAGAZINE” are successfully registered by the third parties and 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*) makes the final decision confirming the registrability of the subject trademarks by such third parties regardless of any opposition that will have been raised against “生活 CITYMAGAZINE”. Our Directors are of the view that the adoption of new logos or marks for the periodicals “健康时尚” and “生活月刊” will not have any material adverse effect on the operations of our Group as the name and image of the periodicals “健康时尚” and “生活月刊” are highly distinguishable by the readers or advertising customers of our Group.

Moreover, since publication licenses are approved and issued by the GAPP, and the holders of the licenses are entitled to publish the periodicals listed in the licenses and such publication is not affected by the trademarks used in the periodicals. Even in the event that the registration of new trademarks which adopt new logos and/or marks while retaining the reference to “健康时尚” (LOHAS), “生活月刊” (Life Magazine) and/or “汽车生活” (Auto Life) are rejected by 國家工商行政管理總局商標局 (The PRC Trademark Office of the SAIC\*), and the holders of the registered trademarks which are similar to the marks of ,  and/or  petition to the court and the relevant court adjudicates that our Group have to terminate the use of the marks ,  and/or , the publication of the periodicals “健康时尚”, “生活月刊” and “汽车生活” is unlikely to be suspended.

Furthermore, our PRC legal adviser has advised us that:

- (i) since the use of trademarks which are the same as those that are still under the application for registration is not prohibited under the current PRC laws, our Group or the PRC Publishing Partners will not be liable for infringement for the use of the trademarks such as  before the due registration of the trademarks by other parties;
- (ii) since under the PRC laws, only the use of identical trademarks in respect of the same or similar product or service categories covered by the registered mark without the permission of the trademark registrant may be regarded as an infringement, our Group shall not be liable for infringement for the use of the trademarks such as  as the product and service categories for which the registered trademark “汽车生活 CARLIFE” cover do not include newspapers, periodicals and magazines; and
- (iii) under the PRC laws, a Publishing Code shall only be used for the publication of one periodical with its unique periodical name. Since our Group has already entered into

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cooperation agreements with the relevant PRC Publishing Partners holding the Publishing Codes for the involvement in the publication of “健康時尚” (LOHAS), “生活月刊” (Life Magazine) and “汽車生活” (Auto Life), our Group is entitled to use the exclusive periodical names “健康時尚”, “生活月刊” and “汽車生活”, and the use of these three periodical names by our Group will not constitute unfair competition claimed by other third parties.

In addition to the trademarks in the PRC, City Howwhy is the registered owner of the registered trademarks CITYMAGAZINE and 號外 in Hong Kong.

Furthermore, we currently are the registrant of a number of domain names which are ancillary to and support our business and for the promotion of our Group and the Magazines. For further details of our intellectual property rights, please refer to the paragraph headed “Intellectual property rights of the Group” in Appendix V to this document.

Despite the steps 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. We have retained competent legal advisers on a regular basis to in advising us in asserting and protecting our rights and interests.

On the contrary, we may be found liable for having infringed third parties’ rights including, among other things, 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 licenses, or a loss of our right to engage in all or part of our business on a temporary or permanent basis. In this connection, we have put in place stringent procedures in the production process for the Magazines which involve the review and proofreading the contents of the Magazines before publication with a view to minimising any potential infringement.

Our Directors confirm that, as at the Latest Practicable Date, they 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 and which have a material adverse effect on us.

## PROPERTIES

As at the Latest Practicable Date, we maintained an office in Hong Kong and ten offices in Zhuhai, Shenzhen, Guangzhou, Beijing, Chengdu, Nanjing, Harbin and Shanghai for conducting our major business operation. Except for the office premises in Beijing, which is owned by our Group, all other offices are currently leased from Independent Third Parties. In addition to above major offices, we also leased certain properties in the PRC for staff dormitory, retail shop, studio, warehouse and other ancillary purposes. CB Richard Ellis Limited, an independent property valuer, has valued the property interests of our Group as at 30 June 2009. The texts of the letter, summary of values and the valuation certificates issued by CB Richard Ellis Limited for this purpose are set out in Appendix III to this document.

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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. As advised by our PRC legal adviser, we are entitled to claim loss and damages against the lessors for any loss and damages under such circumstances.

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 properties we leased in Zhuhai were duly registered in July 2009. We will use our 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.

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 advised by our PRC legal adviser, we as a lessee will not be subject to any administrative penalty.

As the abovementioned leased premises 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, and our Directors estimated that the total relocation costs will be less than RMB500,000. Therefore, both our Directors and the [●] consider that these leased premises are not crucial to our Group’s existing operation. However, in order to avoid the occurrence of similar events in the future, our Group will issue new guidelines, which specify the requirements on checking complete title registrations, in respect of all future rentals.

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 of the abovementioned title defects and the non-registration of some of the tenancy agreements in relation to the properties leased by 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.

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### COMPETITION

Currently, the publishing sector has become an important component of China’s cultural industry. The publishing industry in the PRC is highly competitive and is characterised by a large number of publishing houses and publications. According to the GAPP, there are a total of about 9,500 periodicals and 1,900 newspapers in issue in 2008. In view of the existence of numerous publications in the PRC, our Directors consider that the market competition for printed media in the PRC is keen. 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. Notwithstanding the potential competition from the Internet, our Directors believe that our proven track record will prove value and reliability to our target class of advertising customers and readership.

As a significant portion of our revenue was contributed from the PRC Magazines (and the sales of advertising spaces therein), our Directors consider that our Group’s major competitors are media firms and their publications circulated in the PRC. In view of the intense competition in the PRC, our Directors consider that our Group’s competitiveness largely lies on the quality of contents and popularity of the PRC Magazines. According to admanGo Limited (*note 1*), one of the leading companies in the provision of competitive advertising and media spending information with main focuses in the advertising market in Hong Kong and China and an Independent Third Party, amongst a total of about [320] magazines that are currently under its monitor for compiling its database in relation to the advertising industry in the PRC, [“週末畫報” (Modern Weekly)] ranked the [third] in terms of advertising revenue in 2008, taking up a share of approximately [4.3]% of the total advertising income of the sample magazines in its database. Furthermore, out of [31] weekly magazines in the database of [admanGo Limited], our “週末畫報” (Modern Weekly) ranked [first] in terms of advertising revenue in 2008, taking up a share of over [40.0]% of total advertising income of those weekly magazines. However, to the best knowledge of our Directors, there are no comparable figures available from credible source in relation to the historical information or forecast trend of our market share in the PRC given the evolving and fast changing nature of the industry.

Note:

1. Both ZenithOptimedia and admanGo Limited are not commissioned by us or our Connected Persons and/or the [●].