SELECTED FINANCIAL INFORMATION

The following tables present the selected financial information of our Group for the years/periods indicated. The selected combined income statements and combined cash flow statements of our Group for each of the three financial years ended 31 December 2008 and for the three months ended 31 March 2009, and the selected combined balance sheet information of our Group as of 31 December 2006, 2007 and 2008 and 31 March 2009, have been extracted from the accountants' report on our Company, prepared in accordance with IFRSs issued by the International Accounting Standards Board throughout the Track Record Period, the text of which is set forth in Appendix I to this document. Historical results are not necessarily indicative of results for any future period. For further information regarding the basis of presentation of our Group's selected financial information, please refer to the accountants' report set out in Appendix I to this document.

TRADING RECORD DURING THE TRACK RECORD PERIOD

The following table summarises our combined results for the Track Record Period which are extracted from the accountants' report set out in Appendix I to this document, and also illustrates certain items in our combined income statement expressed as a percentage of turnover for the Track Record Period:—

	Years ended 31 December						Three months ended 31 March			
	2006		2007		2008		2008		2009	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000* (Unaudited)	*% of turnover*	*RMB'000*	*% of turnover*
Turnover	231,302	100.0	281,085	100.0	347,825	100.0	65,105	100.0	60,022	100.0
Cost of sales	(107,114)	(46.3)	(117,443)	(41.8)	(142,839)	(41.1)	(30,596)	(47.0)	(36,325)	(60.5)
Gross profit	124,188	53.7	163,642	58.2	204,986	58.9	34,509	53.0	23,697	39.5
Other revenue	75	0.0	355	0.1	1,743	0.5	48	0.1	2,470	4.1
Other net income/(loss)	79	0.0	(135)	(0.0)	(514)	(0.1)	(125)	(0.2)	16	0.0
Selling and distribution expenses	(35,918)	(15.5)	(51,502)	(18.3)	(72,390)	(20.8)	(18,517)	(28.4)	(18,117)	(30.2)
Administrative and other operating expenses	(46,937)	(20.3)	(62,916)	(22.4)	(77,393)	(22.3)	(18,703)	(28.7)	(18,771)	(31.3)
Profit/(loss) from operations	41,487	17.9	49,444	17.6	56,432	16.2	(2,788)	(4.2)	(10,705)	(17.9)
Finance costs	(51)	(0.0)	—	0.0	—	—	—	0.0	(171)	(0.3)
Share of profit/(loss) of an associate	—	0.0	498	0.2	861	0.2	(654)	(1.0)	(57)	(0.1)
Share of loss of a jointly controlled entity	—	0.0	(382)	(0.1)	(290)	(0.1)	(196)	(0.3)	(26)	(0.0)

	Years ended 31 December						Three months ended 31 March			
	2006		2007		2008		2008		2009	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000* *(Unaudited)*	*% of turnover*	*RMB'000*	*% of turnover*
Profit/(loss) before taxation	41,436	17.9	49,560	17.7	57,003	16.3	(3,638)	(5.5)	(10,959)	(18.3)
Income tax	(5,486)	(2.4)	(7,760)	(2.8)	(11,985)	(3.4)	(294)	(0.5)	1,242	2.1
Profit/(loss) for the year/period	35,950	15.5	41,800	14.9	45,018	12.9	(3,932)	(6.0)	(9,717)	(16.2)
Profit/(loss) attributable to equity shareholders	35,950	15.5	41,800	14.9	45,018	12.9	(3,932)	(6.0)	(9,717)	(16.2)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our Group's business, financial condition and results of operations in conjunction with our combined financial information as at and for each of the three financial years ended 31 December 2008 and the three months ended 31 March 2009 and the accompanying notes thereto, the text of which is set forth in the accountants' report in Appendix I to this document. The following discussion and analysis contains certain forward-looking statements and information that involve substantial risks and uncertainties. Our future results could differ materially from those stated in any forward-looking statements and information contained in this section and this document. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this document.

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 total population in 2001 to approximately 6.6% of total population in 2007. With such a niche readership who aspire to high quality living standards and our platform of multi-segmented magazines portfolio, we have successfully attracted a group of eminent advertising clientele comprising internationally renowned brands of leisure and luxurious products to place advertisements in the Magazines.

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

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

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

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

Impact of the recent global financial turmoil on our Group

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

Basis of the preparation and presentation of financial information

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 March 2007. Prior to the [●], our Group comprising our Company and all our subsidiaries and the PRC Operational Entities underwent the Reorganisation including the entering of all the agreements constituting the Contractual Arrangements. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in Appendix V to this document.

As extracted from section A of the accountants' report set out in Appendix I to this document, our combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of our Group have been prepared on a combined basis and include the results of operations of the companies now comprising our Group for the Track Record Period (or where the companies were acquired/incorporated/established at a date later than 1 January 2006, for the period from the date of acquisition/incorporation/establishment to 31 March 2009) as if the current group structure had been in existence throughout the entire Track Record Period. The combined balance sheets of our Group as at 31 December 2006, 2007 and 2008 and 31 March 2009 have been prepared to present the state of affairs of the companies comprising our Group as at those dates as if the current group structure had been in existence as at those dates or since their respective dates of acquisition/incorporation/establishment where they did not exist at those dates. All material intra-group transactions and balances have been eliminated in full on combination.

Under the prevailing laws and regulations in the PRC, publishing companies with foreign ownership are restricted from engaging in the publishing business in the PRC. To comply with the the prevailing laws and regulations in the PRC, 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 legal and beneficial equity interest 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 derive all the economic benefits derived from the operations of the PRC Operational Entities through the Contractual Arrangements entered into by Zhuhai Technology. Accordingly, the financial results and positions of the PRC Operational Entities have been consolidated into our Group since their respective dates of establishment.

Major factors affecting our Group's results of operations and financial condition

Our Group has recorded satisfactory results for the Track Record Period and our Directors believe that by implementing our business strategies as detailed in the paragraph headed "Business strategies" in the section headed "Business" in this document, our Group will continue to be one of the leading media groups in the PRC by 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 segmentations. However, potential investors should be aware of the following factors which we consider may affect our results of operations and financial conditions and the year-to-year comparability of our results of operations.

Change of overall economic conditions in the PRC, Hong Kong and globally which affect the advertising and marketing expenditure and budgets of our brand advertising customers

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. As such, our Directors consider that the financial performance of our Group is largely driven by the overall economic conditions in the PRC and Hong Kong as reflected by its consumer spending, personal disposable income and household income. For instance, according to the National Bureau of Statistics of China, household income of the middle income group of China has increased by 11.8% and 17.4% in 2006 and 2007 respectively while income of the highest income group has also increased by 11.5% and 14.9% in 2006 and 2007 respectively. Due to the strong personal disposable income growth and the rising living standards in the PRC in the recent years, the demand for our brand advertising customers' leisure and luxury products, such as fashions, gadgets, automotives, watches, branded accessories, is expected to continue to rise in the future and will eventually fuel the growth in estimated gross advertising expenditures our target advertising platform for leisure and luxury products, including Chinese lifestyle magazines in the PRC.

Following the outburst of global economic downturn in the last quarter of the year 2008, the global financial market has experienced significant deterioration and volatility recently, which have had negative repercussions on the global economy. However, the economic turmoil did not have a material impact on our Group's financial results for the three years ended 31 December 2008 since, to the best knowledge of our Directors, most of our major advertising customers usually planned their annual budget for the purchase of advertising space at the beginning of each year and our Directors noted that there was no significant decrease in the orders from advertising customers during the last quarter of the year 2008. However, our Directors observed that our advertising customers temporarily scaled down their promotional activities and advertising spending for the three months ended 31 March 2009 because the first quarter of each year was the traditional slack season of the luxury and leisure consumer goods market in the PRC and coupled with the then obscure economic conditions. As such, we experienced a decrease in our advertising income from approximately RMB65.1 million for the three months ended 31 March 2008 to approximately RMB59.2 million for the three months ended 31 March 2009. In the meanwhile, the launching of "優家畫報" (U+ Weekly) in December 2008 had increased the capacities of our advertising spaces and diversified our readership and advertising customers. Our new revenue generated from "優家畫報" (U+ Weekly) had partially offset the aforementioned negative effects of the global financial turmoil. Our total number of advertising spaces sold decreased from approximately 1,300 pages for the three months ended 31 March 2008 to approximately 1,100 pages for the three months ended 31 March 2009.

As a strategy to attract our advertising customers to keep placing advertisements in our Magazines, we offered more incentive packages to our selective customers during the first quarter of the year 2009 when compared with the same period of last year. The average unit selling price of our advertising spaces was decreased from approximately RMB55,000 per page for the year ended 31 December 2008 to approximately RMB54,000 per page for the three months ended 31 March 2009.

In response to the tough market conditions, our management has come up with certain cost restructuring activities such as restructuring our back office supporting functions and modifying the remuneration package of our senior management during the three months ended 31 March 2009. With these measures, we successfully maintained our selling and distribution expenses as well as the administrative and other operating expenses for the three months ended 31 March 2009 at a similar level as compared to that for the three months ended 31 March 2008, despite the fact that the scale of operation of our Group has been increased as we expanded the portfolio of our Magazines. However, as a result of the decrease in advertising income and stable operating costs, our Group recorded an increase in the net loss from approximately RMB3.9 million for the three months ended 31 March 2008 to approximately RMB9.7 million for the three months ended 31 March 2009.

In order to capture the anticipated recovery of consumer markets in the PRC, our Group further extended incentive packages to our selected advertising customers in the second quarter of the year 2009 with a view to enlarging our market share. Although there was a downward adjustment in our average selling price of advertising spaces from approximately RMB54,000 per page for the three months ended 31 March 2009 to approximately RMB[49,000] per page for the three months ended 30 June 2009, we recorded an increase in the number of our advertising spaces sold from approximately 1,100 pages for the three months ended 31 March 2009 to approximately [1,600] pages for the three months ended 30 June 2009 and our unaudited advertising revenue for the three months ended 30 June 2009 increased to approximately RMB[78.2] million when compared to that for the three months ended 31 March 2009 of approximately RMB59.2 million.

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

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

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

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

Our ability to provide our advertising customers with an integrated value-added advertising and marketing solutions

The diversified portfolio of weekly and monthly magazines currently promoted under our corporate brand "Modern Media" enable our Group, not only to cross-sell our advertising customers to incrementally place advertisements in the other magazines we currently operate, but also to provide integrated advertising and marketing solutions to our advertising customers. By featuring distinctive contents and style in the Magazines, our Group is able to provide target segmentation solutions and integrated advertising and marketing solutions to our advertising customers which ultimately will generate revenue for our Group.

Our Directors believe that we are able to take advantage of such brand recognition in promoting ourselves among the advertising customers, thereby boasting their confidence in our advertising solutions which fueled the growth of our revenue. During the Track Record Period, our advertising income increased by approximately 22.8% and 24.4% from year 2006 to year 2007 and from year 2007 to year 2008 respectively. Such strong and solid business platform further enables our Group to leverage for future development of new business titles and advertising business in the first and second tier cities in the PRC.

Our pricing policy

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. During the Track Record Period, the average unit selling price of our advertising spaces increased from approximately RMB50,000 per page for the year ended 31 December 2006 to RMB53,000 per page for the year ended 31 December 2007 and further increased to RMB55,000 per page for the year ended 31 December 2008 and then downwardly adjusted to RMB54,000 for the three months ended 31 March 2009 as a result of the global economic downturn. Our Directors consider that our Group's ability to charge our clients at rates favorable to us will also depend on our ability to continue to meet the needs of our advertising customers by providing integrated value-added advertising and marketing solutions. Our ability to anticipate and respond to consumer tastes and preferences for advertising, which tend to change quickly and frequently, is vital to our Group for the provision of quality and value-added advertising and marketing solutions to our advertising customers which drive our revenue and affect our financial performance.

Our marketing effort

Our Directors believe that our corporate brand name of "Modern Media" and the Magazines are the most important elements in attracting more advertising customers to purchase our advertising spaces and advertising related services. During the Track Record Period, we focused our marketing efforts to arouse market awareness of our corporate brand name "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 by means of placing mass media promotion, sending complimentary copies of the Magazines, holding special events and ceremonies, and actively identifying and meeting with our major customers on a regular basis in order to maintain a good relationship and seek business opportunities in the future. Our advertising and promotion expenses incurred during the Track Record Period were approximately RMB13.5 million, RMB22.6 million, RMB37.2 million and RMB7.5 million respectively, representing approximately 37.6%, 43.8%, 51.4% and 41.5% of our sales and distribution expenses for the respective periods.

Our readership base

Our Directors believe that a loyal and well-segmented readership base is a critical factor in attracting our advertising customers to purchase advertising spaces of the Magazines. 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 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 corporate brand "Modern Media" and the Magazines further. As a result, our Directors consider that if the Magazines cannot keep pace with the taste of readers, it will adversely affect the operations and financial results of our Group.

Market competition

Competition in the fast-growing Chinese-language lifestyle magazine market in the PRC will become more acute when more new Chinese-language lifestyle magazines enter the market and demand for advertisements become more balanced. According to the GAPP, there are a total of about 9,500 periodicals and 1,900 newspapers in issue in 2008. As competitive pressures increase, our Directors believe that the ability to compete on the basis of price, enhancement of our brand recognition and establishment of loyal readership base in the near future can further enhance our Group's competitiveness in the lifestyle magazine market in the PRC.

During the Track Record Period, our most direct competitors were other Chinese-language lifestyle magazines publishers based in the PRC, and to lesser extent we also competed indirectly with other advertising platforms providers, such as internet advertising platform provider, newspapers and television channels, who targeted the similar customers segments of our Group. Our Directors believe that given our leading market position in the nation-wide lifestyle magazines sector in the PRC and effective implementation of the abovementioned policies in pricing, brand building and readership during the Track Record Period, the extent of competition did not have a material adverse effect on our operating results for the Track Record Period. In addition, our Directors believe that competition increases as the generic growth of our existing competitors and increase in the number of competitors in the future. Our revenue and operating margin might be negatively affected as our existing and potential new competitors aggressively pursue their business plan.

Seasonal trend of advertisement expenditures of lifestyle magazines in the PRC

To the knowledge of our Directors, advertisement expenditures in the PRC traditionally demonstrate only a mild seasonal fluctuation, with generally higher demand for advertisements and hence more advertising expenditures in the second half of each year. This is mainly due to the fact that advertisement customers tend to expand their advertising campaigns and increase advertising expenditures in the second half of each year to boost sales performance in order to meet their annual sales targets. Our Directors also consider that our circulation revenue and advertising revenue are sensitive to local customer spending pattern, as our advertising customers are likely to place advertisements according to such seasonal shopping or spending patterns. Also, the Chinese New Year holidays in the first half of each year are the traditional slack season for magazines industry as advertising customers tend to withhold and avoid launching large-scale printed advertisements in magazines as readers traditionally leave the cities in which they work and 80 back to their home town 8 for festival celebration. As a result, our Group generally records higher revenue in the second half as compared to the first half of each year. In general, our revenue generated in the first half of the year accounted for approximately 40% while the revenue generated in the second half of the year accounted for approximately 60% of our total revenue, respectively.

Our cost of sales

Our Group's major cost of sales component is the printing charges which included the fees payable to the printers for provision of printing services and paper supply for the printing of the Magazines. Printing costs 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 2006, 2007 and 2008 and for the three months ended 31 March 2009, respectively.

It is our policy to identify various potential printers according to the volume of publication estimated and to communicate with those potential printers on our Group's publications, demands and printing criteria. Having negotiated with the target printers on the prices and terms of printing, our Group will enter into contracts with the selected printers for the upcoming printing services and the supply of the printing papers. Our Directors believe that the printers tend to have a stronger bargaining power in sourcing printing papers due to economy of scales. Currently, we engage two printers in the PRC and one in Hong Kong for the printing of the Magazines and we have entered into a two-year's agreement from 2008 to 2010 with the two printers in the PRC; and entered into a one-year's agreement from 2009 to 2010 with the printer in Hong Kong, in respect of the printing services and paper supply for the Magazines. Recognising the importance in controlling cost of sales, as well as the printing quality of 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.

Level of income tax and preferential tax treatment

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND PRACTICES

The discussion and analysis of our operating results and financial condition are based on our audited combined financial information, which have been prepared in accordance with IFRSs. Our operating results and financial condition are sensitive to the accounting methods, assumptions and estimates that underlie the preparation of the financial information. The assumptions and estimates are based on our industry experience and on various other factors, including our Directors' expectations of future events that they believe to be reasonable. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

Our management considers the following factors in reviewing our combined financial information:

- the selection of critical accounting policies; and
- the estimates and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the estimates and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited combined financial information. Our significant accounting policies are summarised in note 1 of section C of the accountants' report in Appendix I to this document. We believe the following critical accounting policies and practices do not involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There is no change in our Group's accounting policies during the Track Record Period. It is our policy for our Directors to review and evaluate the basis of our Group's accounting policies regularly so as to determine whether the accounting policies are still applicable to the then business operations of our Group and update our Group's accounting policies if and when necessary.

Revenue recognition

Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

(i) *Advertising income*

Revenue from advertising contracts, net of business tax and related surcharge, are recognised upon the publication of the Magazines in which the advertisement is placed.

(ii) *Circulation income*

Circulation income represents sales of the Magazines, which is recognised when the publication is delivered to the distributor at which point the risk and rewards of ownership has passed and return of magazines can be estimated reliably. No significant variance between the final outcome and our circulation income recognised was found in the past. The basis for the estimate or assumption has not been changed in the past and such estimate or assumption is not likely to change in the future.

(iii) *Sponsorship, event and service income*

Sponsorship, event and service income is recognised when the relevant services are provided.

(iv) *Interest income*

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

(v) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that our Group will comply with the conditions attaching to them. Grants that compensate our Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate our Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

Fixed Assets and depreciation

Fixed assets are stated in the balance sheets at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, on a straight-line method over their estimated useful lives as follows:

- — Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 5 years from the date of completion, and the unexpired terms of the leases.
- — Land and buildings held for own use — 20 years
- — Office equipment — 3-5 years
- — Furnitures and fixtures — 3-5 years
- — Motor vehicles — 5-10 years

The useful lives and residual values are based on our Group's historical experience with similar assets.

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

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

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. No material variance between actual result and our Group's estimation was found in the past. The estimate or assumption has not been changed in the past and such estimate or assumption is not likely to change in the future.

Impairment of assets other than receivables

Our Group reviews the carrying amounts of assets at each balance sheet date to determine whether there is indication that the assets may be impaired based on our Group's historical experience with the similar assets. When an indication of impairment is identified, the assets' recoverable amount would be estimated. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, management use estimated discounted future cashflow to assess the differences between the carrying amount and value in use and provided for impairment loss if necessary. Any change in the assumptions of the estimated discounted future cashflow would increase or decrease the provision of impairment loss and affect our Group's net asset value.

An increase or a decrease in the above impairment loss would affect the net profit in future years.

No significant variance between the final outcome and our Group's impairment loss on assets recognised was found in the past. The basis for the estimate or assumption has not been changed in the past and such estimate or assumption is not likely to change in the future.

Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment loss for bad and doubtful debts are assessed and provided based on our Directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by our Directors when assessing the credit worthiness and collection history of each individual customer.

During the Track Record Period, our Group recognised impairment loss of trade receivables of approximately RMB92,000, RMB690,000, RMB428,000 and RMB364,000 respectively. Our Group also recognised reversal of impairment loss of trade receivables of RMB432,000 and RMB180,000 for the year ended 31 December 2008 and the three months ended 31 March 2009. The basis for estimate or assumption has not been changed in the past and is not likely to change in the future. Although reversal of impairment loss of trade receivable was recorded in the year ended 31 December 2008 and the three months ended 31 March 2009, our Directors believe the current policies of impairment and credit controls are effective, as the actual uncollectible debts written off during the Track Record Period represented approximately 0.1%, 0.3%, 0.0% and 0.5% of trade receivables as at the respective balance sheet dates.

Payables

Payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Income taxes

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

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

The basis for the estimate or assumption has not been changed in the past and such estimate or assumption is reasonably not likely to change in the future.

DESCRIPTION OF CERTAIN INCOME STATEMENT COMPONENTS

Turnover

Majority of our Group's revenues were contributed by our business operations in the PRC during the Track Record Period, with the Gross Revenue derived from our operations in the PRC represented approximately 94.4%, 94.6%, 96.5% and 97.7% of our total Gross Revenue during the Track Record Period. The following table sets forth our Gross Revenue and revenue, which is Gross Revenue less applicable sales taxes and other surcharges, the components of Gross Revenue and their respective percentage of our Gross Revenue for the respective years as indicated:

	For the year ended 31 December												For the three months ended 31 March							
	2006				2007				2008				2008				2009			
	HK	PRC	**Total**	% of gross revenue	HK	PRC	**Total**	% of gross revenue	HK	PRC	**Total**	% of gross revenue	HK	PRC	**Total**	% of gross revenue	HK	PRC	**Total**	% of gross revenue
	RMB'000	*RMB'000*	***RMB'000***		*RMB'000*	*RMB'000*	***RMB'000***		*RMB'000*	*RMB'000*	***RMB'000***		*RMB'000*	*RMB'000*	***RMB'000***		*RMB'000*	*RMB'000*	***RMB'000***	
Advertising income	11,999	223,388	**235,387**	94.7	15,384	273,656	**289,040**	94.4	11,693	347,768	**359,461**	94.1	2,739	62,330	**65,069**	92.1	1,325	57,885	**59,210**	90.5
Circulation income	1,182	9,699	**10,881**	4.4	803	8,919	**9,722**	3.2	505	13,109	**13,614**	3.6	190	2,599	**2,789**	4.0	93	3,802	**3,895**	6.0
Sponsorship, event and service income	690	1,711	**2,401**	0.9	293	7,003	**7,296**	2.4	1,225	7,569	**8,794**	2.3	138	2,627	**2,765**	3.9	94	2,217	**2,311**	3.5
Gross Revenue	13,871	234,798	**248,669**	100.0	16,480	289,578	**306,058**	100.00	13,423	368,446	**381,869**	100.00	3,067	67,556	**70,623**	100.0	1,512	63,904	**65,416**	100.0
Less: Sales taxes and other surcharges	–	(17,367)	**(17,367)**		–	(24,973)	**(24,973)**		–	(34,044)	**(34,044)**		–	(5,518)	**(5,518)**		–	(5,394)	**(5,394)**	
Revenue	13,871	217,431	**231,302**		16,480	264,605	**281,085**		13,423	334,402	**347,825**		3,067	62,038	**65,105**		1,512	58,510	**60,022**	

Advertising income — We derive a substantial portion of our revenue from the sale of advertising spaces in the Magazines in Hong Kong and the PRC. Revenue from the sale of advertising spaces pursuant to the advertising contracts entered into between our Group and our advertising customers, net of business tax and related surcharge, are recognised upon the publication of the Magazines available to public in which the respective advertisement is placed. During the Track Record Period, advertising income remained our Group's largest revenue source which accounted for approximately 94.7%, 94.4%, 94.1% and 90.5% of our Group's Gross Revenue for each of the three years ended 31 December 2008 and the three months ended 31 March 2009. We believe that the high and stable demand for the advertising spaces in our flagship magazine, namely "週末畫報" (Modern Weekly), primarily accounts for our advertising turnover and is thus the most predominant factor in our revenue history during the Track Record Period.

Our sales efforts primarily focus on the sale of advertising spaces in the Magazines to our advertising customers through their respective international advertising agencies in Hong Kong and the PRC or directly to our brand advertisers. Our advertising customers place advertisements with the Magazines on differing 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. 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. For more details, please refer to the paragraph headed "Business Strategies" in the section headed "Business" in this document.

Circulation income — The circulation income was mainly derived from the actual sales of copies of the Magazines through independent wholesale distributors in Hong Kong and the PRC which accounted for approximately 4.4%, 3.2%, 3.6% and 6.0% of our Gross Revenue for each of the three years ended 31 December 2008 and the three months ended 31 March 2009. Over the years, we have established an extensive magazine distribution network in Hong Kong and the PRC for the sales of our Magazines. Our Directors believe that an efficient and effective distribution and circulation network is an essential element in the constitution of our Mag-Form. 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.

Sponsorship, event and service income — We also derived our income, to a lesser extent, from sponsorship and event management, advertising production and other services income, which accounted for approximately 0.9%, 2.4%, 2.3% and 3.5% of our Gross Revenue for each of the three years ended 31 December 2008 and the three months ended 31 March 2009. 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 accomplish their advertising needs. As such, in addition to the sales of advertising spaces, we also provide integrated value-added advertising services and marketing solutions to our advertising customers which mainly include (a) organising marketing events including award ceremonies, seminars, forums and cultural exhibitions, for or jointly with the advertising customers; and (b) arranging specific topics and columns to be included in the contents of the Magazines. For more details, please refer to the paragraph headed "Sales and Marketing" in the section headed "Business" in this document.

Sales taxes and other surcharges — Sales taxes and surcharges represented business tax and other surcharges on our advertising income, sponsorship, event and service income, which are payable to various local government tax authorities. During the Track Record Period, the sales tax and other surcharges accounted for approximately 7.3%, 8.4%, 9.2% and 8.8% of our advertising income and sponsorship, event and service income, respectively. The applicable percentage varies depending on the location of the source of our revenue and generally ranges from 5% to 17%.

Cost of Sales

During the Track Record Period, the components of the cost of sales and their respective percentage of the cost of sales of our Group is summarised as below:

	For year ended 31 December												For the three months ended 31 March							
	2006				2007				2008				2008				2009			
	HK *RMB'000*	PRC *RMB'000*	**Total** ***RMB'000***	*% of total cost of sales*	HK *RMB'000*	PRC *RMB'000*	**Total** ***RMB'000***	*% of total cost of sales*	HK *RMB'000*	PRC *RMB'000*	**Total** ***RMB'000***	*% of total cost of sales*	HK *RMB'000*	PRC *RMB'000*	**Total** ***RMB'000***	*% of total cost of sales*	HK *RMB'000*	PRC *RMB'000*	**Total** ***RMB'000***	*% of total cost of sales*
Printing costs	4,137	54,180	**58,317**	54.4	3,636	53,802	**57,438**	48.9	3,464	68,553	**72,017**	50.4	687	13,546	**14,233**	46.5	440	18,074	**18,514**	51.0
Content Production and related costs	947	13,757	**14,704**	13.7	1,038	21,609	**22,647**	19.3	1,271	23,131	**24,402**	17.1	291	5,261	**5,552**	18.2	275	6,007	**6,282**	17.3
Staff costs	6,687	21,126	**27,813**	26.0	7,213	26,576	**33,789**	28.8	3,143	38,543	**41,686**	29.2	1,057	8,577	**9,634**	31.5	920	10,144	**11,064**	30.5
Others	965	5,315	**6,280**	5.9	806	2,763	**3,569**	3.0	1,958	2,776	**4,734**	3.3	264	913	**1,177**	3.8	19	446	**465**	1.2
Total cost of sales	12,736	94,378	**107,114**	100.0	12,693	104,750	**117,443**	100.0	9,836	133,003	**142,839**	100.0	2,299	28,297	**30,596**	100.0	1,654	34,671	**36,325**	100.0

Printing costs — Printing costs mainly represent fees payable to the independent printers in the PRC and Hong Kong for the provision of printing services and paper supply for the printing of the Magazines. During the Track Record Period, printing costs accounted for a substantial portion or approximately half of our cost of sales. In view of the significance of this cost component, it is the policy of our Group to identify various potential printers according to the volume of publication estimated and to communicate with those potential printers on our Group's publications, demands and printing criteria. Having negotiated with the target printers on the prices and terms of printing, our Group will enter into contract with the respective printers in respect of the printing services and paper supply for the Magazines.

Content production and related costs — During the Track Record Period, content production and related costs accounted for approximately 13.7%, 19.3%, 17.1% and 17.3% of our total cost of sales. Content production and related costs mainly represent (i) photographic expenses incurred for the purchase of photos from independent photographers and international news agencies which were contained in the Magazines from time to time; (ii) content production and other expenses incurred for the production of contents in the Magazines; (iii) film making expenses incurred for the preparation of color separation films for printing which our Group outsourced to independent service providers; and (iv) fee payable to the PRC Publishing Partner pursuant to the respective exclusive cooperation agreements entered into between our Group and the respective PRC Publishing Partners. In order to have a better cost control, our Group has gradually utilised digitalisation techniques to replace the traditional use of color separation films for our printing. Our Directors consider that such adoption of latest technology will eventually allow us to eliminate the needs and hence the costs incurred to use color separation films for printing.

Staff costs — Staff costs mainly represent salaries and benefits, including pensions and social security benefits, paid to our content production teams' staff. During the Track Record Period, staff costs accounted for a significant portion or approximately 26.0%, 28.8%, 29.2% and 30.5% of our total cost of sales.

Gross profit and gross profit margin

During the Track Record Period, the gross profit and the gross profit margin are summarised as below:

	For the year ended 31 December									For the three months ended 31 March					
	2006			2007			2008			2008			2009		
	HK	PRC	**Total**	HK	PRC	**Total**	HK	PRC	**Total**	HK	PRC	**Total**	HK	PRC	**Total**
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	13,871	217,431	**231,302**	16,480	264,605	**281,085**	13,423	334,402	**347,825**	3,067	62,038	**65,105**	1,512	58,510	**60,022**
Cost of Sales	12,736	94,378	**107,114**	12,693	104,750	**117,443**	9,836	133,003	**142,839**	2,299	28,297	**30,596**	1,654	34,671	**36,325**
Gross Profit	1,135	123,053	**124,188**	3,787	159,855	**163,642**	3,587	201,399	**204,986**	768	33,741	**34,509**	(142)	23,839	**23,697**
Gross Profit Margin	8.2%	56.6%	**53.7%**	23.0%	60.4%	**58.2%**	26.7%	60.2%	**58.9%**	25.0%	54.4%	**53.0%**	(9.4)%	40.7%	**39.5%**

Our gross profit for each of the three financial years ended 31 December 2008 and the three months ended 31 March 2009 was approximately RMB124.2 million, RMB163.6 million, RMB205.0 million, and RMB23.7 million respectively. Our gross profit margin for each of the three financial years ended 31 December 2008 and the three months ended 31 March 2009 was approximately 53.7%, 58.2%, 58.9% and 39.5% respectively.

Other revenue and other net income/(loss)

Other revenue and other net income/(loss) mainly represented interest income from bank deposits, government incentives received by us during the Track Record Period, net foreign exchange gain/(loss), and gain/(loss) on disposal of fixed assets. For details of the nature of government incentives, please refer to the paragraph headed "Comparison between the three months ended 31 March 2009 and the three months ended 31 March 2008" below in this section.

Selling and distribution expenses

During the Track Record Period, the components of the selling and distribution expenses and their respective percentage of its total are summarised as below:

	For the year ended 31 December						For the three months ended 31 March			
	2006		2007		2008		2008		2009	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000* *(unaudited)*	*% of total*	*RMB'000*	*% of total*
Staff costs	17,744	49.4	22,900	44.5	27,196	37.6	6,887	37.2	7,533	41.6
Advertising and promotion	13,515	37.6	22,583	43.8	37,244	51.4	10,292	55.6	7,524	41.5
Travelling and related costs	921	2.6	944	1.8	1,349	1.9	209	1.1	519	2.9
Distribution and delivery costs	2,557	7.1	2,349	4.6	4,274	5.9	760	4.1	1,514	8.3
Others	1,181	3.3	2,726	5.3	2,327	3.2	369	2.0	1,027	5.7
	35,918	100.0	51,502	100.0	72,390	100.0	18,517	100.0	18,117	100.0

Our selling and distribution expenses primarily represented (i) staff costs for our sales and marketing staff, (ii) advertising and promotion expenses, (iii) travelling and related costs, and (iv) distribution and delivery costs, in connection with the promotion activities of our corporate brand "Modern Media" and the Magazines.

Staff costs — Staff costs mainly represented the salaries, benefits and year-end bonus payable to our sales and marketing staff which accounted for approximately 49.4%, 44.5%, 37.6% and 41.6% of our selling and distribution expenses for each of the three financial years ended 31 December 2008 and for the three months ended 31 March 2009.

Advertising and promotion expenses — During the Track Record Period, we engaged in substantial promotion and advertising activities with a view to develop consumer awareness of our corporate brand "Modern Media" as well as increasing our market share. We focused on particular mass media promotion such as outdoor advertisements featuring our corporate brand "Modern Media" and the Magazines cover pages on mass billboards of the railway station. In addition, we organised special marketing events such as seminars, forum, cultural exhibition and awards ceremonies, for or jointly with our advertising customers and/or advertisers in order to develop and maintain a good business relationship with them. Furthermore, our sales and marketing teams worked aggressively in approaching our advertising customers on a regular basis in order to identify their changing needs from time to time. Our advertising and promotion expenses accounted for approximately 37.6%, 43.8%, 51.4% and 41.5% of our sales and distribution expenses for the three financial years ended 31 December 2008 and for the three months ended 31 March 2009.

Travelling and related costs — Travelling and related costs mainly represented the travelling and related expenses of our sales and marketing staff incurred in our Group's marketing and promotion activities during the Track Record Period.

Distribution and delivery costs — Distribution and delivery costs mainly represented the costs incurred in the delivering of our Magazines by independent logistics companies in Hong Kong and the PRC during the Track Record Period.

Administrative and other operating expenses

During the Track Record Period, the components of the administrative and operating expenses and their respective percentage of its total are summarised as below:

	For the year ended 31 December						For the three months ended 31 March			
	2006		2007		2008		2008		2009	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000* *(unaudited)*	*% of total*	*RMB'000*	*% of total*
Staff costs	11,285	24.1	18,349	29.2	22,340	28.9	6,959	37.2	5,531	29.5
Depreciation charges	3,057	6.5	2,989	4.8	8,521	11.0	2,052	11.0	2,596	13.8
Operating lease charges in respect of property	10,066	21.4	11,684	18.6	12,649	16.3	2,934	15.7	2,704	14.4
Travelling and related expenses	9,487	20.2	9,470	15.0	12,278	15.9	2,707	14.5	3,952	21.0
Office expenses	9,308	19.8	13,273	21.1	19,199	24.8	3,537	18.9	3,319	17.7
Others	3,734	8.0	7,151	11.3	2,406	3.1	514	2.7	669	3.6
	46,937	100.0	62,916	100.0	77,393	100.0	18,703	100.0	18,771	100.0

Our administrative and other operating expenses primarily consist of (i) staff costs, (ii) depreciation charges, (iii) operating lease charges in respect of our leasehold properties, (iv) travelling and related expenses for our administrative staff and (v) other office expenses.

Staff costs — Staff costs mainly represent the salaries, benefits and the year-end bonus payable to our administrative staff which accounted for approximately 24.1%, 29.2%, 28.9% and 29.5% of our total administrative and other operating expenses for each of the three financial years ended 31 December 2008 and for the three months ended 31 March 2009.

Depreciation charges — Depreciation charges were mainly related to the depreciation charges of our office equipment and properties in Beijing which accounted for approximately 6.5%, 4.8%, 11.0% and 13.8% of our total administrative and other operating expenses for each of the three financial years ended 31 December 2008 and for the three months ended 31 March 2009.

Operating lease charges in respect of properties — Operating lease charges in respect of properties mainly represented the rental expenses for our offices located in Hong Kong, Shenzhen, Guangzhou, Shanghai and Beijing which accounted for approximately 21.4%, 18.6%, 16.3% and 14.4% of our total administrative and other operating expenses for each of the three financial years ended 31 December 2008 and for the three months ended 31 March 2009. Except for the properties acquired on 21 July 2007 in Beijing for a consideration of approximately RMB38.4 million, we did not own any other property in the PRC and Hong Kong during the Track Record Period and the number of leased properties as at the end of each of the three financial years ended 31 December 2008 and as at 31 March 2009 was approximately 14, 17, 20 and 21 respectively.

Travelling and related expenses — Travelling and entertainment expenses mainly represent the costs incurred in the business trips of our senior management staff which accounted for approximately 20.2%, 15.0%, 15.9% and 21.0% of our total administrative and other operating expenses for each of the three financial years ended 31 December 2008 and for the three months ended 31 March 2009.

Other office expenses — Other office expenses mainly include utilities, telephone expenses, property management fees, repair and maintenance and other office related expenses.

Finance costs

During the Track Record Period, finance costs represent interest on bank loans.

Share of profit/(loss) of an associate

During the Track Record Period, share of profit or loss of an associate represented the share of profit or loss from Tianjin Holiday which was 20% owned by our Group during the years ended 31 December 2007 and 2008 and the three months ended 31 March 2009.

Share of loss of a jointly controlled entity

During the Track Record Period, share of loss of a jointly controlled entity mainly represented the share of loss from Sichuan Shangdu which was 50% owned by our Group during the years ended 31 December 2007 and 2008 and the three months ended 31 March 2009.

Income tax

During the Track Record period, our Group is mainly subject to the EIT which was the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

The provisions for Hong Kong profits tax for the years ended 31 December 2006 and 2007 were calculated at 17.5% of the estimated assessable profits for the respective years.

In February 2008, the Hong Kong Government announced a decrease in the profits tax rate from 17.5% to 16.5% applicable to our Group's operations in Hong Kong as from the year ended 31 December 2008. Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2008 and the three months ended 31 March 2009 are calculated at 16.5% of the estimated assessable profits for the year/period.

Prior to 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Our Group's operations in Shenzhen and Zhuhai, in accordance with *廣東省經濟特區條例 (The Regulations on the Special Economic Zones in Guangdong Province*)* being enterprises located in the designated Special Economic Zones, were entitled to a reduced income tax rate of 15%. Zhuhai Technology, being a production-oriented foreign investment enterprise under the Foreign Enterprise Income Tax law and its implementation rules, was entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses ("2+3 Tax Holiday"). In addition, according to *(94)財税字第001號《關於企業所得税若干優惠政策的通知》* (the tax circular *(94) CaiShuiZi No. 001 regarding certain preferential income tax policies*)*, certain of our Group's operations in the PRC were granted two-year full exemption tax holidays ("2-year tax holidays"), primarily as a result of being registered as newly established consulting services entities starting from their respective dates of establishment. Further, Guangzhou Yage was subject to PRC income tax at 18% on the deemed profits calculated as 10% of turnover pursuant to the local tax practice.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the new EIT Law, which unified the income tax rate to 25% for all enterprises. The new tax law was effective on 1 January 2008. The new tax law, its implementation rules and the State Council Notice, *國發〔2007〕39號《國務院關於實施企業所得稅過渡優惠政策的通知》 (GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Corporate Income Tax Policies*)* ("Circular 39"), provide a five-year transitional period effective from 1 January 2008 for those enterprises which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws and regulations. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. The new EIT Law, its implementation rules and Circular 39 also provide grandfathering on the 2+3 Tax Holiday and require such tax exemption period to begin on 1 January 2008 should it be not started prior to 1 January 2008. The 2-year tax holiday is not grandfathered under the new EIT Law.

Based on the above, our Group's PRC operations are subject to the following income tax rates:

- Zhuhai Modern Zhimei and Zhuhai Yinhu are subject to income tax at 15%, 18%, 20%, 22%, 24% and 25% for 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

- Zhuhai Technology was in a tax loss position for 2007. It commenced its 2+3 Tax Holiday in 2008 and is subject to income tax at 0% for 2008 and 2009, at 12.5% from 2010 to 2012 and at 25% thereafter.

- Shenzhen Yage Zhimei Information commenced its 2-year tax holiday in 2005 and is subject to income tax at 0%, 15%, 18%, 20%, 22%, 24% and 25% for 2006, 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

- Shanghai Gezhi deferred the commencement of its 2-year tax holiday to 2007. It is subject to income tax at 33%, 0%, 18%, 20%, 22%, 24% and 25% for 2006, 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

- Beijing Yage Zhimei commenced its 2-year tax holiday in 2006 and is subject to income tax at 25% from 2008 onwards.

- Shenzhen Yazhimei is subject to income tax at 15% for 2007 and 25% from 2008 onwards.

- Guangzhou Yage would have been subject to income tax at 18% on the deemed profits calculated as 10% of turnover for 2006 and 2007 pursuant to the 天七國稅鑒通字[2006]第001011號《企業所得稅徵收方式鑒定通知書》(Tian Qi Guo Shui Jian Tong Ji [2006] no. 001011, the notice of enterprise income tax levying method*), 穗天國稅七通[2007]81號《廣州市天河區國家稅務局稅務事項通知書》(Sui Tian Guo Shui Qi Tong [2007] no. 81, the taxation matters notice from the Tianhe district office of Guangzhou municipal office of the State Tax Bureau*) and subject to income tax at 25% on the deemed profits calculated as 10% of turnover for the year 2008 pursuant to the EIT assessment for the year 2008 dated 15 May 2009. However, no EIT has ever been levied according to this deemed profits method as Guangzhou Yage was inactive since its incorporation in 2004 and no turnover has been recorded and Guangzhou Yage was loss making for the three years ended 31 December 2008 and thus, Guangzhou Yage has not applied such deemed profits method for the year 2006, 2007 and 2008. From [2009] onward, Guangzhou Yage is subject to income tax at 25%.

- Guangzhou Modern Information, Shanghai Yage, Beijing Yage and Guangzhou Modern Books are subject to income tax at 33% for 2006 and 2007 and at 25% from 2008 onwards.

The new EIT Law also imposes a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside mainland China for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. As of 31 March 2009, our Group had not provided for income taxes on accumulated earnings generated by its PRC operational entities for the year ended 31 December 2008 and the three months ended 31 March 2009 since it is probable that they will not be distributed in the foreseeable future. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

Our Directors confirm that our Group has made all the required tax filings under relevant tax laws and regulations in all the jurisdictions where our Group operates and has paid all outstanding tax liabilities. To the best knowledge of our Directors, our Group had not been subject to any dispute raised by the tax authorities as at the [Latest Practical Date].

Moreover, our PRC legal adviser has confirmed with us that the tax authorities granting the preferential tax treatments in the PRC as discussed above are the competent authorities.

Reconciliation between tax expense/(credit) and accounting profit/(loss) before taxation of applicable tax rates

	Years ended 31 December			Three months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(loss) before taxation	41,436	49,560	57,003	(3,638)	(10,959)
Notional tax on profit/(loss) before taxation, calculated at the rate of 25% (2006 and 2007: 33%)	13,674	16,355	14,251	(910)	(2,740)
Effect of differential tax rate on income	(8,601)	(10,487)	(2,590)	(410)	(954)
Tax effect of non-deductible expenses *(Note 1)*	10,685	18,300	1,478	1,622	1,012
Tax effect of non-taxable revenue	—	(274)	(587)	(55)	(46)
Tax effect of temporary differences not recognised	—	30	(279)	5	19
Tax effect of prior years' unrecognised tax losses utilised this year/period	(609)	(225)	—	—	—
Tax effect of unused tax losses not recognised	1,933	—	289	72	1,467
Effect of tax concessions obtained *(Note 2)*	(11,648)	(15,917)	—	—	—
Others	52	(22)	(577)	(30)	—
Actual tax expense/(credit)	5,486	7,760	11,985	294	(1,242)

Notes:

1. Non-deductible expenses mainly comprise non-deductible entertainment expenses and staff costs incurred by the PRC Operational Entities for EIT purpose.

2. The effect of tax concessions obtained represented the exemption of enterprise income tax for certain subsidiaries comprising our Group including Shenzhen Yage Yazhimei for the year ended 31 December 2006 and Shanghai Gezhi and Beijing Yage Zhimei for the year ended 31 December 2007.

Period-to-period analysis of our trading record

Comparison between the three months ended 31 March 2009 and the three months ended 31 March 2008

Turnover

According to the ZenithOptimedia Report, global advertising expenditure had been contracting since the third quarter of 2008 as a result of the outburst of the global financial turmoil and further accelerated in the fourth quarter of 2008 and the first quarter of 2009. ZenithOptiamedia forecasted that the advertising expenditure growth in China will slow to just approximately 5.4% in 2009 compared to the growth rate of approximately 18.8% in 2008. Despite the market uncertainty during the three months ended 31 March 2009 had led to delay and reduction of advertising spending from some of our advertising customers which primarily represented the designated advertising agencies and brand advertisers in the leisure, luxury and consumer goods markets, our Directors believe that our Group’s leading market position in the Chinese-language lifestyle magazine sector in the PRC enable our Group to achieve better than market-average performance during the three months ended 31 March 2009. Our turnover decreased by approximately 7.8% from approximately RMB 65.1 million for the three months ended 31 March 2008 to approximately RMB 60.0 million for the three months ended 31 March 2009. In particular, our advertising income decreased by approximately 9.1% from approximately RMB 65.1 million for the three months ended 31 March 2008 to approximately RMB 59.2 million for the three months ended 31 March 2009.

Our Directors believe that our advertising customers were temporarily withholding their advertising spending budgets during the three months ended 31 March 2009. The number of our advertising spaces sold decreased from approximately 1,300 pages for the three months ended 31 March 2008 to approximately 1,100 pages for the three months ended 31 March 2009 and our Directors believe that our advertising customers will eventually increase their advertising spending in the second half of 2009 in view of the outperformance consumer market in the PRC. According to an analysis dated 17 July 2009 concluded by the National Bureau of Statistics of China on the Total Retail Sales of Social Consumer Goods, the market volume recorded an amount of approximately RMB5,871.1 billion for the first half of the year 2009, which represented a growth of approximately 15.0% when compared with the same period of year 2008. Consequently, our Directors believe that our seasonal revenue trend of 2009 will return to the traditional pattern of approximately 40% incurring in the first half of the year and approximately 60% incurring in the second half of the year.

In addition, the decrease in demand for our advertising spaces and services was also reflected in the decrease in the number of our advertising customers from approximately 247 for the three months ended 31 March 2008 to approximately 225 for the three months ended 31 March 2009. We recorded a slight decrease in the revenue per advertising customer from approximately RMB263,600 for the three months ended 31 March 2008 to approximately RMB263,100 for the three months ended 31 March 2009. In order to stimulate customer spending, our Group had offered special incentive packages to selective customers during the three months ended 31 March 2009. As the result, we recorded a mild downward adjustment on our average unit selling price of our advertising spaces from approximately RMB55,000 per page for the year ended 31 December 2008 to approximately RMB 54,000 per page for the three months ended 31 March 2009.

On the other hand, we recorded an increase in our circulation income by approximately 39.3% from approximately RMB2.8 million for the three months ended 31 March 2008 to approximately RMB3.9 million for the three months ended 31 March 2009. The increase was mainly attributable to the generic growth of our flagship magazine, "週末畫報"(Modern Weekly) and the launching of "優家畫報" (U+ Weekly) which commenced its issue in December 2008. There was no change in the retail selling price of the Magazines during the Track Record Period.

Cost of sales

Our cost of sales increased by approximately 18.6% from approximately RMB30.6 million for the three months ended 31 March 2008 to approximately RMB36.3 million for the three months ended 31 March 2009. The increase was mainly attributable to (i) the increase in our printing costs from approximately RMB14.2 million for the three months ended 31 March 2008 to approximately RMB18.5 million for the three months ended 31 March 2009 as a result of the launching of "優家畫報" (U+ Weekly) which commenced its issue in December 2008 and led to the increase in the total number of printing copies from approximately 1.2 million for the three months ended 31 March 2008 to approximately 2.2 million for the three months ended 31 March 2009. Our printing costs per copy decreased from approximately RMB11.8 for the three months ended 31 March 2008 to approximately RMB8.4 for the three months ended 31 March 2009 was mainly attributable to the launch of a weekly magazine, "優家畫報" (U+ Weekly), in December 2008. Since in general, the printing costs per copy of weekly magazines was lower than the monthly magazines, therefore the increase in printing of our weekly magazines brought about by the launching of "優家畫報" (U+ Weekly) contributed to the drop in printing costs per copy when compared with the same for the three months ended 31 March 2008; and (ii) increase in staff costs of our content production staff by approximately 15.6% from approximately RMB9.6 million for the three months ended 31 March 2008 to approximately RMB11.1 million for the three months ended 31 March 2009 as a result of the expansion of our content production teams for "優家畫報" (U+ Weekly). The average monthly headcount of our content production staff increased from approximately 258 for the three months ended 31 March 2008 to approximately 309 for the three months ended 31 March 2009.

Gross profit and gross profit margin

Our gross profit decreased by approximately 31.3% from approximately RMB34.5 million for the three months ended 31 March 2008 to approximately RMB23.7 million for the three months ended 31 March 2009, which was in line with the change of 'Turnover' and 'Cost of sales' for the three months ended 31 March 2008 and 2009. Thus, our gross profit margin also decreased from approximately 53.0% and 39.5% for the three months ended 31 March 2008 and 2009, respectively.

Other revenue

Our other revenue increased by approximately 5,108.3% from approximately RMB48,000 for the three months ended 31 March 2008 to approximately RMB2.5 million for the three months ended 31 March 2009 was mainly attributable to the receipt of recurring PRC government incentive during the period from 1 January 2008 to 31 December 2008 in the amount of approximately RMB2.4 million granted to Shanghai Gezhi. Pursuant to the development agreement between Shanghai Gezhi and 洋涇街道辦事處經濟科 (Economic Division of Yangjing Local Government Bureau*) ("Yangjing Bureau") dated 5 March 2007, the government incentives granted were to assist the development of

Shanghai Gezhi. Pursuant to the abovementioned agreements, our Group is entitled to such government incentives for a specific period as Shanghai Gezhi is one of the selected registered taxpayers with valid business licence in the governing area of Yangjing Bureau. The salient terms of the abovementioned agreement are as follows:

Effective period: 1 January 2006 to 31 December 2010

Basis for incentive: The incentive is computed based on a specific percentage of EIT, value-added tax, business tax, city development tax, individual income paid and the amount of business tax paid in the previous year.

Terms of Termination: During the effective period, if Shanghai Gezhi cannot pass the annual inspection for the renewal of its business license with the local Industry and Commerce Bureau or the registered address is located outside the administration area of Yangjing Local Government Bureau, the agreement will be terminated immediately. Shanghai Gezhi had passed the annual inspection for the renewal of its business licence for the year 2007 and 2008.

The increase in the PRC government incentives was mainly due to the increase in the business tax paid by Shanghai Gezhi for the year 2008 when compared to that with the year 2007 as Shanghai Gezhi was setup on 16 January 2006 and only started its full operation during the year 2008 and the earlier entitlement of the PRC government incentives in January 2009 when compared with May 2008 for the year 2007 government incentive.

In addition, to the best knowledge of our Directors and pursuant to the abovementioned agreement, there is no specific restriction on the usage of such government incentives. Our Directors believe that the incentives are generally available to other qualified companies in the same district.

Government incentives are recognised in our Group's profit or loss when there is reasonable assurance that they will be received and that our Group will comply with the conditions attaching to them. Grants that compensate our Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Other net (loss)/income

We recorded other net loss of approximately RMB125,000 for the three months ended 31 March 2008 as compared to other net income of approximately RMB16,000 for the three months ended 31 March 2009 was mainly attributable to exchange gain derived from our other loan which denominated in US$ to our then business partner and the appreciation of RMB against US$ during three months ended 31 March 2009.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 2.2% from approximately RMB18.5 million for the three months ended 31 March 2008 to approximately RMB18.1 million for the three months ended 31 March 2009 was mainly attributable to the combined effect of (i) increase in distribution and delivery costs, due to the launching of weekly magazine, "優家畫報" (U+ Weekly), (ii) increase in our staff costs of sales, marketing, and distribution team, and (iii) rescheduling most of our marketing and promotional activities to the second half of the year 2009 in order to have a more precise resources allocation to cope with the peak season of our customers' advertising spending.

As discussed in the paragraph headed 'Turnover' above, we launched a new weekly magazine, namely "優家畫報" (U+ Weekly), which commenced its issue in December 2008. Thus, the increase in the number of our magazines led to an increase in our distribution and delivery costs by approximately 87.5% from approximately RMB0.8 million for the three months ended 31 March 2008 to approximately RMB1.5 million for the three months ended 31 March 2009.

Our staff costs of the sales, marketing and distribution teams increased by approximately 8.7% from RMB6.9 million for the three months ended 31 March 2008 to approximately RMB7.5 million for the three months ended 31 March 2009 was mainly attributable to the increase in the average monthly headcount of sales, marketing and distribution teams from approximately 189 for the three months ended 31 March 2008 to approximately 271 for the three months ended 31 March 2009 for the expansion of advertising and promotional activities and the expansion of our distribution network during the second half of the year 2008.

However, as a result of the outburst of the global financial turmoil during the last quarter of the year 2008, our advertising income for the three months ended 31 March 2009 dropped accordingly as stated in the paragraph headed 'Turnover' in this subsection. In response to the economic turbulence, our management decided to concentrate our resources on the marketing and promotional activities in the second half of the year 2009 in order to cope with the seasonal trend of our advertising income. Hence, our advertising and promotion expenses decreased by approximately 27.2% from approximately RMB10.3 million for the three months ended 31 March 2008 to approximately RMB7.5 million for the three months ended 31 March 2009.

Administrative and other operating expenses

Our administrative and other operating expenses slightly increased by approximately 0.5% from approximately RMB18.7 million for the three months ended 31 March 2008 to approximately RMB18.8 million for the three months ended 31 March 2009. The increase was mainly attributable to the combined effect of (i) increase in depreciation charges; (ii) increase in the travelling and related expenses; and (iii) decrease in the staff costs of our administrative staff.

Firstly, our depreciation charges increased by approximately 23.8% from approximately RMB2.1 million for the three months ended 31 March 2008 to approximately RMB2.6 million for the three months ended 31 March 2009 was mainly attributable to the acquisition of office premises in Beijing from an independent third party at a total consideration of approximately RMB38.4 million during the fourth quarter of the year 2007 which commenced to be used since 2008.

Secondly, our travelling and related costs increased by approximately 48.1% from approximately RMB2.7 million for the three months ended 31 March 2008 to approximately RMB4.0 million for the three months ended 31 March 2009. This increase was mainly due to the fact that since the outburst of global financial turmoil, our senior management increased their frequency of intra-office travelling in order to provide more close-to-market managerial supports to the local operational teams in the fast-changing market environment.

Lastly, in response to the operational challenges caused by the global economic financial crisis, our Group had restructured the back-office supporting functions and re-designed our management incentive scheme since the first quarter of the year 2009. As the result, our staff costs of administrative staff decreased by approximately 21.4% from approximately RMB 7.0 million for the three months ended 31 March 2008 to approximately RMB 5.5 million for the three months ended 31 March 2009.

Share of loss of an associate

Share of loss from Tianjin Holiday decreased by approximately 91.3% from approximately RMB654,000 for the three months ended 31 March 2008 to approximately RMB57,000 for the three months ended 31 March 2009 was mainly resulted from improvement of the cost efficiency of the associate during the first quarter of the year 2009 when compared with the same period of last year.

Share of loss from a jointly controlled entity

Share of loss from Sichuan Shangdu decreased by approximately 86.7% from approximately RMB196,000 for the three months ended 31 March 2008 to approximately RMB26,000 for the three months ended 31 March 2009. Since 1 January 2009, the operation of Sichuan Shangdu had been suspended because the performance of Sichuan Shangdu could not meet the expectation of the shareholders. The share of loss from a jointly controlled entity for the three months ended 31 March 2009 mainly represented several maintenance costs of Sichuan Shangdu incurred in that period.

Income tax

The outburst of the global financial turmoil at the end of the year 2008 led to the decrease in our advertising revenue, gross profit and further led to an increase in loss from operation of our Group for the three months ended 31 March 2009 when compared with the same period of the previous year. The tax credit in amount of approximately RMB1.2 million for the three months ended 31 March 2009 mainly represented the recognition of deferred tax assets in relation to the tax loss derived from our PRC operations.

Loss for the period

To the best knowledge and the past experiences of our Directors, our advertising customers principally tended to focus their advertisement effort and to allocate a relative larger proportion of their annual budgeted advertising expenditures in the second half of each year in order to boost up their sales and meet their annual sales targets. It has been the historical trend of our Group's advertising revenues to be mainly generated in the second half of the year. As a result, our Group was loss making during each of the first quarter of the year 2008 and 2009. The net loss of our Group increased from approximately RMB3.9 million for the three months ended 31 March 2008 to approximately RMB9.7 million for the three months ended 31 March 2009 was primarily attributable to the decrease in our advertising income from approximately RMB65.1 million for the three months ended 31 March 2008 to approximately RMB59.2 million for the three months ended 31 March 2009 as discussed in the paragraph headed 'Turnover' in this subsection.

Year-to-year analysis of our trading record

Comparison between the financial year ended 31 December 2008 and the financial year ended 31 December 2007

Turnover

Our turnover increased by approximately 23.7% from approximately RMB281.1 million for the year ended 31 December 2007 to approximately RMB347.8 million for the year ended 31 December 2008. In particular, our advertising income increased by approximately 24.4% from approximately RMB289.0 million for the year ended 31 December 2007 to approximately RMB359.5 million for the year ended 31 December 2008.

The increase of our advertising income was mainly attributable to the general growth of the PRC economy which induced the increase in our customers' advertising expenditures on the Magazines for the year 2008. Our advertising customers primarily represented the designated advertising agencies and brand advertisers in the leisure, luxury and consumer markets. Our Directors believe that the scale of our advertising customers' advertising expenditures in the PRC would be positively correlated to the general economy of the PRC as it would effect the activeness of the consumer markets especially for the leisure and luxury products. According to the National Bureau of Statistic of China, there was a general growth of the PRC economy and the real GDP of the PRC was recorded a growth of approximately 9.0% for the year 2008. As a result, we recorded an increase in the advertising revenue which were mainly driven by the growth of our flagship magazine in the PRC, "周末畫報" (Modern Weekly). At the same time the total number of our advertising customers maintained stable at approximately 592 for the year ended 31 December 2007 and approximately 591 for the year ended 31 December 2008.

In addition, leveraging on our 'Mag-Form', we continuously adopted the strategy of cross-selling our advertising customers to place advertisements in different magazines of our Group. We tried to induce them to place additional advertisements by providing integrated value-added advertising and marketing services such as issuing supplements tailored for our customers' advertisements, and the number of supplementary issues increased from approximately 69 for the year 2007 to approximately 81 for the year 2008. We recorded an increase in the revenue per advertising customer from approximately RMB488,000 for the year ended 31 December 2007 to approximately RMB608,000 for the year ended 31 December 2008.

In the meanwhile, we have also launched two magazines, "健康時尚" (LOHAS) and "優家畫報" (U+ Weekly) since January 2008 and December 2008, respectively. The launching of these two magazines increased the available number of advertising spaces for our advertising customers for the financial year ended 2008 when compared to that of the year 2007. Due to the combined effect of the increase in sales orders from our advertising customers, the increase in number of supplements, the launching of new magazines and the generic growth of our then existing magazines, total number of advertising spaces sold increased from approximately 5,500 pages for the year ended 31 December 2007 to approximately 6,500 pages for the year ended 31 December 2008. Furthermore, the average unit selling price of our advertising spaces increased from approximately RMB53,000 per page for the year ended 31 December 2007 to approximately RMB55,000 per page for the year ended 31 December 2008.

On the other hand, we also recorded an increase in our circulation income by approximately 40.2% from approximately RMB9.7 million for the year ended 31 December 2007 to approximately RMB13.6 million for the year ended 31 December 2008. During the year 2008, we continued our efforts to expand our distribution network in the PRC, especially into a number of second-tier PRC cities such as Changsha. During the year, we appraised the performance of our distributors with a view to concentrating our internal resources for the cooperation with those distributors which have outstanding performance. Accordingly, we had consolidated and decreased in the number of our distributors from approximately 270 in 2007 to approximately 230 in 2008. In the meanwhile, the launching of two magazines, "健康時尚" (LOHAS) and "優家畫報" (U+ Weekly) since January 2008 and December 2008, respectively, also contributed to the increase in our circulation income for the year 2008. Furthermore, there was no change in the retail selling price of the Magazines during the Track Record Period.

Cost of sales

Our cost of sales increased by approximately 21.6% from approximately RMB117.4 million for the year ended 31 December 2007 to approximately RMB142.8 million for the year ended 31 December 2008. The increase was mainly attributable to (i) the increase in our printing costs from approximately RMB57.4 million for the year ended 31 December 2007 to approximately RMB72.0 million for the year ended 31 December 2008 as a result of the increase in the total number of printing copies from approximately 4.7 million for the year ended 31 December 2007 to approximately 5.8 million for the year ended 31 December 2008 and also the increase in the printing cost per copy increased from approximately RMB12.3 for the year ended 31 December 2007 to approximately RMB12.4 for the year ended 31 December 2008; and (ii) the increase in staff costs of our content production staff by approximately 23.4% from approximately RMB33.8 million for the year ended 31 December 2007 to approximately RMB41.7 million for the year ended 31 December 2008 as a result of the expansion of our content production teams for "健康時尚" (LOHAS) and "優家畫報" (U+ Weekly). The average monthly headcount of our content production staff increased from approximately 230 for the year ended 31 December 2007 to approximately 285 for the year ended 31 December 2008. In addition, the increase in the staff cost of our content production team has also contributed to the effective salary increment of approximately 13% for the year ended 31 December 2008.

Gross profit and gross profit margin

Our gross profit improved by approximately 25.3% from approximately RMB163.6 million for the year ended 31 December 2007 to approximately RMB205.0 million for the year ended 31 December 2008, which was in line with the change of 'Turnover' and 'Cost of sales' for the year ended 31 December 2007 and 2008. Our gross profit margin maintained at a stable level at approximately 58.2% and 58.9% for the year ended 31 December 2007 and 2008, respectively.

Other revenue

Our other revenue increased by approximately 325.0% from approximately RMB0.4 million for the year ended 31 December 2007 to approximately RMB1.7 million for the year ended 31 December 2008 was mainly attributable to the receipt of recurring PRC government incentive in May 2008 for the period from 1 January 2007 to 31 December 2007 in the amount of approximately RMB1.4 million granted to Shanghai Gezhi. For details of the government incentives, please refer to the paragraph headed "Comparison between the three months ended 31 March 2009 and the three months ended 31 March 2008.

The increase in the PRC government incentives was mainly due to the increase in the business tax paid by Shanghai Gezhi for the year 2007 when compared to that of the year 2006 as Shanghai Gezhi was setup on 16 January 2006 and only started its full operation during the year 2007.

Other net loss

Our other net loss increased by approximately 280.7% from approximately RMB135,000 for the year ended 31 December 2007 to approximately RMB514,000 for the year ended 31 December 2008 was mainly attributable to the increase in loss on disposal of fixed assets from approximately RMB23,000 for the year ended 31 December 2007 to approximately RMB310,000 for the year ended 31 December 2008 as a result of a disposal of motor vehicles during the year.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 40.6% from approximately RMB51.5 million for the year ended 31 December 2007 to approximately RMB72.4 million for the year ended 31 December 2008 was mainly attributable to (i) the increase in our advertising and promotion expenses and (ii) the increase in our staff costs of the sales, marketing and distribution teams during the year.

As discussed in the paragraph headed 'Turnover' above, we launched two magazines, namely "健康時尚" (LOHAS) and "優家畫報" (U+ Weekly) since January 2008 and December 2008, respectively, of which the target readership was mainly the well-educated white-collar women. In promoting the new magazines and upkeeping our corporate brand name 'Modern Media' and our other magazines including our flagship magazine, "週末畫報" (Modern Weekly), we had additionally launched a series of advertising activities in the PRC such as promotional press conference and issue promotional items such as posters and umbrellas to our wholesale distributors during the year 2008. In addition, we had also expanded our distribution network to several second-tier cities such as Changsha during the year 2008 which led to an increase in our expenses for the promotional items displayed in the retail point of sales accordingly. As a result, our advertising and promotion expenses increased by approximately 64.6% from approximately RMB22.6 million for the year ended 31 December 2007 to approximately RMB37.2 million for the year ended 31 December 2008.

Our staff costs of the sales, marketing and distribution teams increased by approximately 18.8% from RMB22.9 million for the year ended 31 December 2007 to approximately RMB27.2 million for the year ended 31 December 2008 was mainly attributable to the combined effect of (i) the increase in the average monthly headcount of sales, marketing and distribution teams from approximately 190 for the year ended 31 December 2007 to approximately 210 for the year ended 31 December 2008 for the expansion of advertising and promotional activities, (ii) the effective salary increment of approximately 13% during the year ended 31 December 2008, and (iii) partially offset by the management's decision in cutting the year-end staff bonus as a result of the global economic downturn in the last quarter of the year.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately 23.1% from approximately RMB62.9 million for the year ended 31 December 2007 to approximately RMB77.4 million for the year ended 31 December 2008. The increase was mainly attributable to (i) the increase in depreciation charges; (ii) increase in the operating lease charges in respect of our leasehold properties; and (iii) increase in our office expenses.

Firstly, our depreciation charges increased by approximately 183.3% from approximately RMB3.0 million for the year ended 31 December 2007 to approximately RMB8.5 million for the year ended 31 December 2008 was mainly attributable to the acquisition of office premises in Beijing from an Independent Third Party at a total consideration of approximately RMB38.4 million during the fourth quarter of the year 2007 which was then commenced into use since 2008.

Secondly, our operating lease charges in respect of our leasehold properties increased by approximately 7.7% from approximately RMB11.7 million for the year ended 31 December 2007 to approximately RMB 12.6 million for the year ended 31 December 2008. During the year 2008, we have leased new office premises in Beijing, Harbin and Tianjin in order to facilitate our sales and marketing activities with the advertising customers in respective areas. The number of our Group's leased properties increased from approximately 17 in 2007 to approximately 20 in 2008.

Lastly, our office expenses increased by approximately 44.4% from approximately RMB13.3 million for the year ended 31 December 2007 to approximately RMB19.2 million for the year ended 31 December 2008 was mainly attributable to the purchase of office premises in Beijing during the fourth quarter of the year 2007 and increase in the number of leased properties as discussed above, which led to increase in several office expenses such as property management fees, utilities, telephone, reinstatement and relocation costs and other office expenses for the year ended 31 December 2008 when compared with that for the year ended 31 December 2007.

Share of profit of an associate

Share of profit from Tianjin Holiday increased by approximately 72.9% from approximately RMB498,000 for the year ended 31 December 2007 to approximately RMB861,000 for the year ended 31 December 2008 was mainly resulted from the business expansion of an associate in the year 2008

Share of loss from a joint controlled entity

Share of loss from Sichuan Shangdu decreased by approximately 24.1% from approximately RMB382,000 for the year ended 31 December 2007 to approximately RMB290,000 for the year ended 31 December 2008 was mainly attributable to the temporary suspension of the operation of Sichuan Shangdu in the middle of the year 2008 as a result of the Sichuan earthquake on 12 May 2008. Accordingly, operating loss generated by Sichuan Shangdu decreased during the year and led to a decrease in our Group's share of losses of Sichuan Shangdu for the year ended 31 December 2008.

Income tax

For the year ended 31 December 2007, two of our subsidiaries, Shanghai Gezhi and Beijing Yage Zhimei, were entitled to full exemption from PRC EIT pursuant to the approvals granted by the local tax bureaus. For the year ended 31 December 2008, the applicable tax rate for the above subsidiaries were 18% and 25% respectively. As a result, our income tax increased by approximately 53.8% from approximately RMB7.8 million for the year ended 31 December 2007 to approximately RMB12.0 million for the year ended 31 December 2008 and the effective income tax rate increased from approximately 15.7% for the year ended 31 December 2007 to approximately 21.0% for the year ended 31 December 2008.

Profit for the year and net profit margin

Our Group's profit for the year increased by approximately 7.7% from approximately RMB41.8 million for the year ended 31 December 2007 to approximately RMB45.0 million for the year ended 31 December 2008 and the net profit margin decreased from approximately 14.9% for the year ended 31 December 2007 to approximately 12.9% for the year ended 31 December 2008. The decrease in net profit margin was mainly attributable to the combined effect of (i) the increased in our gross profit and gross profit margin from approximately RMB163.6 million and 58.2% for the year ended 31 December 2007, respectively to approximately RMB205.0 million and 58.9% for the year ended 31

December 2008, respectively as a result of increase in our turnover; (ii) the increase in the portion of our selling and distribution expenses from approximately 18.3% of our total revenue for the year ended 31 December 2007 to approximately 20.8% for the year ended 31 December 2008 as a result of the increase in our advertising and promotion activities; and (iii) the increase in our income tax expenses and effective tax rates from approximately RMB7.8 million and 15.7% for the year ended 31 December 2007, respectively, to approximately RMB12.0 million and 21.0% for the year ended 31 December 2008, respectively.

Comparison between the financial year ended 31 December 2007 and the financial year ended 31 December 2006

Turnover

Our turnover increased by approximately 21.5% from approximately RMB231.3 million for the year ended 31 December 2006 to approximately RMB281.1 million for the year ended 31 December 2007. In particular, our advertising income increased by approximately 22.8% from approximately RMB235.4 million for the year ended 31 December 2006 to approximately RMB289.0 million for the year ended 31 December 2007.

As discussed in the paragraph headed 'Turnover' under the sub-section of 'Comparison between the financial year ended 31 December 2008 and the financial year ended 31 December 2007', the advertising income of our Group was mainly driven by our customers' advertising expenditure budget which was positively correlated to the general economy as well as the consumer market of the PRC. According to the National Bureau of Statistic of China, there was a general growth of the PRC economy and the real GDP of the PRC recorded a growth of approximately 13.0% for the year 2007. As a result, we have also recorded an increase in the advertising revenue that was mainly driven by the growth of our flagship magazine "周末畫報" (Modern Weekly) in the PRC. The total number of our Group's advertising customers recorded a net increment from approximately 547 for the year ended 31 December 2006 to approximately 592 for the year ended 31 December 2007.

In addition, leveraging on our 'Mag-Form', we continuously adopted the strategy of cross-selling our advertising customers to place advertisements in different magazines of our Group and we tried to induce them to place additional advertisements by providing value-added advertising services such as issuing supplements tailored for our customers' advertisements of which the number increased from approximately 58 for the year 2006 to approximately 69 for the year 2007. We also recorded an increase in the revenue per advertising customers from approximately RMB430,000 for the year ended 31 December 2006 to approximately RMB488,000 for the year ended 31 December 2007.

We launched our magazine, "汽車生活" (Auto Life), which has been issued since February 2007. The launching of "汽車生活" (Auto Life) increased the number of available advertising spaces for our advertising customers during the year 2007 when compared to that of the year 2006. Due to the combined effect of the increase sales orders from our advertising customers, the increase in number of supplements, the launching of our new magazine and the generic growth of our then existing magazines, the total number of advertising spaces sold increased from approximately 4,700 pages for the year ended 31 December 2006 to approximately 5,500 pages for the year ended 31 December 2007. Furthermore, the average unit selling price of our advertising space was increased from approximately RMB50,000 per page for the year ended 31 December 2006 to approximately RMB53,000 per page for the year ended 31 December 2007.

On the other hand, we recorded a gentle decrease in our circulation income by approximately 11.0% from approximately RMB10.9 million for the year ended 31 December 2006 to approximately RMB9.7 million for the year ended 31 December 2007. During the year 2007, we changed the circulation strategy of "生活" (Life Magazine) to which the distribution network would be more focusing on the top-tier cities, such as Beijing and Shanghai, and decrease its distribution in the second tier cities. As a result, it contributed to the decrease in circulation income for the year 2007. The effect of "生活月刊" (Life Magazine) as discussed above was partially offset by the generic growth of other Group's magazines such as "周末畫報" (Modern Weekly) for the year 2007, the launching of "汽車生活" (Auto Life) which has been issued since February 2007 and expanded our distribution network in the PRC, especially into a number of second-tier PRC cities such as Ningbo and Hefei and we had an increase in the number of our distributors from approximately 198 in 2006 to 273 in 2007. Furthermore, there is no change in the retail selling price of the Magazines during the Track Record Period.

Cost of sales

Our cost of sales increased by approximately 9.6% from approximately RMB107.1 million for the year ended 31 December 2006 to approximately RMB117.4 million for the year ended 31 December 2007. The increase was mainly attributable to the continued effect of (i) the increase in our staff cost of our content production staff by approximately 21.6% from approximately RMB27.8 million for the year ended 31 December 2006 to approximately RMB33.8 million for the year ended 31 December 2007 as a result of the expansion of our content production teams for our existing magazines and "汽車生活" (Auto Life) which has been issued since February 2007. The average monthly headcount of our content production staff increased from approximately 194 for the year ended 31 December 2006 to approximately 230 for the year ended 31 December 2007 and the effective salary increment of approximately 18% for the year ended 31 December 2007; (ii) the increase in our content production and related costs by approximately 53.7% from approximately RMB14.7 million for the year ended 31 December 2006 to approximately RMB22.6 million for the year ended 31 December 2007 since our management had increased the content production costs budget for the year 2007 in order to improve and enhance the quality of the Magazines such as increase in expenditure for the subscription of photos and pictures provided by various Independent Third Parties including international news agencies; and (iii) the increase was partially offset by the decrease in printing costs from approximately RMB58.3 million for the year ended 31 December 2006 to approximately RMB57.4 million for the year ended 31 December 2007 because we shifted all of our printing orders from our then largest printer for the year 2006 to C&C during the year 2007 since C&C offered relatively lower printing costs. The total number of printing copies was increased from approximately 4.0 million for the year ended 31 December 2006 to approximately 4.7 million for the year ended 31 December 2007, however, the printing cost per copy decreased from approximately RMB14.8 for the year ended 31 December 2006 to approximately RMB12.3 for the year ended 31 December 2007.

Gross profit and gross profit margin

Our gross profit increased by approximately 31.7% from approximately RMB124.2 million for the year ended 31 December 2006 to approximately RMB163.6 million for the year ended 31 December 2007 and our gross profit margin increased from approximately 53.7% for the year ended 31 December 2006 to approximately 58.2% for the year ended 31 December 2007, which was in line with the changes of 'Turnover' and 'Cost of sales' for the years ended 31 December 2006 and 2007.

Other revenue

Our other revenue increased by approximately 373.3% from approximately RMB75,000 for the year ended 31 December 2006 to approximately RMB355,000 for the year ended 31 December 2007 was mainly attributable to an increase in interest income from bank deposits as a result of the receipt from other loan in an amount of approximately US$4.0 million (equivalent to approximately HK$31.2 million or RMB27.5 million) in August 2007 which led to an increase in the average monthly balance of bank deposit for the year ended 31 December 2007. For details of 'other loan', please refer to the paragraph headed "Other loan" in this section.

Other net income/(loss)

We had other net income of approximately RMB79,000 for the year ended 31 December 2006 as compared to other net loss of approximately RMB135,000 for the year ended 31 December 2007. Such change was mainly attributable to the increase in net foreign exchange loss from approximately RMB5,000 for the year ended 31 December 2006 to approximately RMB112,000 for the year ended 31 December 2007 as a result of appreciation of RMB against HK$ and the average exchange rate adopted by our Group increased from approximately HK$1: RMB1.03 for the year ended 31 December 2006 to an average rate of approximately HK$1: RMB0.97 for the year ended 31 December 2007.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 43.5% from approximately RMB35.9 million for the year ended 31 December 2006 to approximately RMB51.5 million for the year ended 31 December 2007 was mainly attributable to (i) an increase in our advertising and promotion expenses and (ii) an increase in our staff costs of the sales, marketing and distribution teams during the year 2007.

As discussed in the paragraph headed 'Turnover' above, we launched a lifestyle magazine "汽車生活" (Auto Life) in February 2007. We had additionally carried out a series of advertising activities in the PRC in order to upkeep the corporate brand name 'Modern Media' such as promotional press conference and issue of other promotional items such as posters and umbrellas for the year ended 31 December 2007 when compared to that of the year 2006. In addition, we had also expanded our distribution network to several second-tier cities such as Ningbo and Hefei during the year 2007 which led to an increase in our expenses for the promotional items displayed in the retail point of sales of our distributors accordingly. As a result, our advertising and promotion expenses increased by approximately 67.4% from approximately RMB13.5 million for the year ended 31 December 2006 to approximately RMB22.6 million for the year ended 31 December 2007.

Our staff costs of the sales, marketing and distribution teams increased by approximately 29.4% from RMB17.7 million for the year ended 31 December 2006 to approximately RMB22.9 million for the year ended 31 December 2007 was mainly attributable to (i) the increase in the average monthly headcount of sales team from approximately 152 for the year ended 31 December 2006 to approximately 190 for the year ended 31 December 2007 for our expanding advertising and promotional activities and (ii) the effective salary increment of approximately 18% for the year ended 31 December 2007.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately 34.1% from approximately RMB46.9 million for the year ended 31 December 2006 to approximately RMB62.9 million for the year ended 31 December 2007. The increase was mainly attributable to (i) an increase in the salaries and benefits of the administrative staff; (ii) an increase in operating lease charges in respect of our leasehold properties; and (iii) an increase in our office expenses.

Firstly, our salaries and benefits of administrative staff increased by approximately 61.9% from approximately RMB11.3 million for the year ended 31 December 2006 to approximately RMB18.3 million for the year ended 31 December 2007 was mainly attributable to the combined effect of the increase in our monthly average of administrative staff from approximately 82 for the year ended 31 December 2006 to approximately 103 for the year ended 31 December 2007 as a result of the expansion of our Information Technology and Network team for the establishment of our Media Management System and update and maintenance of our magazines' websites since the second half of the year 2007 and the effective salary increment of 18% during the year 2007.

Secondly, our operating lease charges in respect of our leasehold properties increased by approximately 15.8% from approximately RMB10.1 million for the year ended 31 December 2006 to approximately RMB11.7 million for the year ended 31 December 2007 was mainly attributable to the increase in the number of leased properties from approximately 14 for the year ended 31 December 2006 to approximately 17 for the year ended 31 December 2007 as a result of additional office space leased in Shanghai, Beijing and Guangzhou during 2007 which was primarily for the expansion of our sales operation in these cities.

Lastly, our office expenses increased by approximately 43.0% from approximately RMB9.3 million for the year ended 31 December 2006 to approximately RMB13.3 million for the year ended 31 December 2007 was mainly attributable to the expansion of office premises in Beijing and Guangzhou which led to an increase in expenses such as property management fees, utilities, telephone and other office expenses for the year ended 31 December 2007 when compared with that for the year ended 31 December 2006.

Share of profit of an associate

Share of profit of an associate represented the share of profits less losses from Tianjin Holiday which was acquired in July 2007 as to 20% owned by our Group. Thus, there was no share of profits less losses of an associate for the year ended 31 December 2006.

Share of loss of a jointly controlled entity

Share of loss of a jointly controlled entity represented the share of losses from Sichuan Shangdu which was acquired in April 2007 as to 50% owned by our Group. Thus, there was no share of profit less losses of a joint controlled entity for the year ended 31 December 2006.

Finance costs

Finance costs represented bank interest charged for a loan which was borrowed in 2005 and fully settled during the year 2006.

Income tax

Our income tax increased by approximately 41.8% from approximately RMB5.5 million for the year ended 31 December 2006 to approximately RMB7.8 million for the year ended 31 December 2007 and the effective tax rate increased from approximately 13.2% for the year ended 31 December 2006 to approximately 15.7% for the year ended 31 December 2007. This was mainly attributable to the increase in our taxable profits in the PRC. In addition, the profit tax rate applicable to our Group's operations in Hong Kong was 17.5% for the year 2006 and 2007, which was lower than that applicable to our Group's PRC operations ranging from generally 15% to 33% for the year 2006 and 2007. Moreover, our provision for Hong Kong Profits Tax decreased from approximately RMB1.3 million for the year ended 31 December 2006 to approximately RMB40,000 for the year ended 31 December 2007, which was mainly attributable to the decrease in our Group's Hong Kong operating result as a result of keen competition of the lifestyle magazine market in Hong Kong.

Profit for the year and net profit margin

Our Group's profit for the year increased by approximately 16.1% from approximately RMB36.0 million for the year ended 31 December 2006 to approximately RMB41.8 million for the year ended 31 December 2007 and the net profit margin decreased from approximately 15.5% for the year ended 31 December 2006 to approximately 14.9% for the year ended 31 December 2007. The decrease in net profit margin was mainly attributable to the combined effect of (i) the increased in our gross profit and gross profit margin from approximately RMB124.2 million and 53.7% for the year ended 31 December 2006, respectively, to approximately RMB163.6 million and 58.2% for the year ended 31 December 2007 as a result of increase in our turnover; (ii) the increase in the portion of our selling and distribution expenses, and administrative and other expenses from approximately 15.5% and 20.3% of our revenue for the year ended 31 December 2006, respectively, to approximately 18.3% and 22.4% for the year ended 31 December 2007, respectively as a result of the expansion of business operations of our Group; and (iii) the increase in our income tax expenses and effective tax rates from approximately RMB5.5 million and 13.2% for the year ended 31 December 2006, respectively, to approximately RMB7.8 million and 15.7% for the year ended 31 December 2007, respectively.

COMBINED BALANCE SHEETS

	As at 31 December			As at 31 March
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Fixed assets	11,992	12,545	67,042	66,279
Prepaid deposits for properties	—	16,998	—	—
Interest in an associate	—	8,599	9,460	9,403
Interest in a jointly controlled entity	—	1,035	328	302
Deferred tax assets	—	—	—	1,732
	11,992	39,177	76,830	77,716
Current assets				
Trade receivables	75,590	71,954	94,187	72,983
Other receivables, deposits and prepayments	8,072	28,298	26,817	22,471
Amounts due from related parties	32,690	43,450	65,769	72,445
Taxation recoverable	—	566	535	535
Cash and cash equivalents	17,815	46,379	37,291	11,610
	134,167	190,647	224,599	180,044
Current liabilities				
Trade payables	21,404	23,086	28,195	22,077
Other payables and accruals	36,038	41,378	56,380	33,528
Bank loan	—	—	—	781
Other loan	—	29,028	27,596	13,779
Taxation payable	7,774	13,305	24,182	22,485
	65,216	106,797	136,353	92,650
Net current assets	68,951	83,850	88,246	87,394
Total assets less current liabilities	80,943	123,027	165,076	165,110
Non-current liability				
Bank loan	—	—	—	9,637
Net assets	80,943	123,027	165,076	155,473
Capital and reserves				
Share capital	6,680	6,172	4,672	4,672
Reserves	74,263	116,855	160,404	150,801
Total equity	80,943	123,027	165,076	155,473

MAJOR BALANCE SHEET ITEMS AND KEY FINANCIAL RATIO

		For the year ended/as at 31 December			For the three months ended/as at 31 March
	Notes	**2006**	**2007**	**2008**	**2009**
Gross profit margin	1	53.7%	58.2%	58.9%	39.5%
Net profit margin	2	15.5%	14.9%	12.9%	N/A
Current ratio	3	2.1	1.8	1.6	1.9
Gearing ratio	4	0.0%	12.6%	13.0%	9.4%
Debtors' turnover days	5	92 days	88 days	79 days	115 days
Creditors' turnover days	6	110 days	141 days	130 days	122 days

Notes:

1. Gross profit margin is calculated based on the gross profit divided by turnover and multiplied by 100%.

2. Net profit margin is calculated based on the profit for the year divided by turnover and multiplied by 100%.

3. Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year/period.

4. Gearing ratio is calculated based on the total debts divided by total assets and multiplied by 100%.

5. Debtors' turnover days is calculated based on average trade receivables (the sum of opening and closing balances of respective years and then divided by two) at the end of the year/period divided by Gross Revenue during the year and multiplied by the number of days during the year/period.

6. Creditors' turnover days is calculated based on average trade payables (the sum of opening and closing balances of respective years and then divided by two) at the end of the year/period divided by the total printing costs during the year/period and multiplied by the number of days during the year/period.

Fixed assets

Our Group's fixed assets increased by approximately 4.2% from approximately RMB12.0 million as at 31 December 2006 to approximately RMB12.5 million as at 31 December 2007 was primarily attributable to the purchase of office equipment for the new office premises in Guangzhou and Beijing and purchase of motor vehicles during the year 2007.

Our Group's fixed assets increased by approximately 436.0% from approximately RMB12.5 million as at 31 December 2007 to approximately RMB67.0 million as at 31 December 2008 was mainly due to the acquisition of the properties pursuant to the sales and purchase agreement entered into between Shenzhen Yage Zhimei and Beijing Shengce Real Estate Development Company Limited which was an Independent Third Party, the additions of leasehold improvements in relation to the abovementioned properties and office premises in Shanghai by approximately RMB13.8 million for the year ended 31 December 2008.

Our Group's fixed assets decreased by approximately 1.0% from approximately RMB67.0 million as at 31 December 2008 to approximately RMB66.3 million as at 31 March 2009 was primarily attributable to the depreciation charged for the three months ended 31 March 2009 in the amount of approximately RMB2.6 million which was partially offset by the addition of fixed assets in amount of approximately RMB1.9 million as a result of the additional leasehold improvement and purchase of office equipment for the new office premises in Beijing during the first quarter of the year 2009.

Prepaid deposits for properties

At 31 December 2007, our Group prepaid deposits for properties of RMB17.0 million and the purchase of properties was completed in 2008 as explained in the above paragraph.

Trade receivables and debtors' turnover days

Trade receivables at 31 December 2006, 2007, 2008 and 31 March 2009 mainly represented the outstanding amounts receivable by us from our advertising customers and distributors less any provision for doubtful debts. The proportion of receivables from distributors as of 31 December 2006, 2007, 2008 and 31 March 2009 represented approximately 6.4%, 7.9%, 9.3% and 13.4%, respectively, of the total trade receivables. The granting of credit terms to customers is assessed on a case-by-case basis and depends on various factors, such as their business relationship with us, creditworthiness, settlement history, and size of business. 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 30 days to 150 days, which we believe align with the general practice of the advertising industry in the PRC.

Our trade receivables decreased by approximately 4.8% from approximately RMB75.6 million as at 31 December 2006 to approximately RMB72.0 million as at 31 December 2007. The decrease was primarily attributable to the improvement in the collection of debt implemented by our management during the year 2007. As a result, the proportion of trade receivables aged over 90 days decreased from approximately 27.1% of the total balance of trade receivables as at 31 December 2006 to approximately 23.2% of the total balance of trade receivables as at 31 December 2007. In this connection, our debtors' turnover days slightly decreased from approximately 92 days for the year ended 31 December 2006 to approximately 88 days for the year ended 31 December 2007.

Our trade receivables increased by approximately 30.8% from approximately RMB72.0 million as at 31 December 2007 to approximately RMB94.2 million as at 31 December 2008. The increase was primarily attributable to the combined effects of (i) an increase in turnover from approximately RMB281.1 million for the year ended 31 December 2007 to approximately RMB347.8 million for the year ended 31 December 2008 and (ii) certain major advertising customers delayed payments as a result of the outburst of the global economic downturn since the last quarter of the year 2008. Although there was a delay of customers' repayment as discussed above, our management had improved the debts' collection capability throughout the whole year 2008 and thus, our debtors' turnover days decreased from approximately 88 days for the year ended 31 December 2007 to approximately 79 days for the year ended 31 December 2008 although the proportion of trade receivable which aged over 90 days increased from approximately 23.2% as at the year ended 31 December 2007 to approximately 29.9% as at the year ended 31 December 2008. As at 31 May 2009, the subsequent settlement of trade receivable as at 31 December 2008 was approximately RMB90.9 million, which represented approximately 95.9% of total trade receivable as at 31 December 2008.

Our trade receivables decreased by approximately 22.5% from approximately RMB94.2 million as at 31 December 2008 to approximately RMB73.0 million as at 31 March 2009 was mainly attributable to the decrease in our advertising income from approximately RMB114.1 million for the three months ended 31 December 2008 to approximately RMB59.2 million for the three months ended 31 March 2009 because of the seasonal trend of the advertising expenditures of our advertising customers and the negative effect of the outburst of the global financial turmoil. Moreover, our debtors' turnover days increased from approximately 79 days for the year ended 31 December 2008 to approximately 115 days for the three months ended 31 March 2009 was primarily attributable to the fact that our advertising customers have temporarily delayed their payments as a result of the global economic downturn.

As at 31 December 2006, 2007 and 2008 and 31 March 2009, the balances of trade receivables that past due but not impaired were approximately RMB22.4 million, RMB17.4 million, RMB31.5 million, and RMB28.0 million, respectively, which represented approximately 29.6%, 24.1%, 33.5%, and 38.4% of the total trade receivables at respective balance sheet dates.

The balances of trade receivables that were past due but not impaired were determined based on the contracted credit periods granted to our advertising customers according to the respective sales contracts. Such past due but not impaired amounts were mainly related to a number of our major advertising customers which were the international advertising agents with good repayment record with our Group. Due to the seasonality effect as detailed under the sub-paragraph headed "Seasonal trend of advertising expenditures of lifestyle magazine in the PRC", the advertising spendings of our advertising customers mainly concentrate in the second half of each year, our Group has experienced increase in the trade receivable balance and observed a general delay in settlement of the trade receivables by these major advertising customers near each of the year end during the Track Record Period. Our Directors believe that this was mainly due to their internal cashflow management to meet with such significant cash outflow in respect of advertising expenditures in the peak season. With a view to maintaining good business relationships with our customers, we would make reference to the then current economic condition, the repayment history, years of relationship and the outstanding amount owed by the respective advertising customers in considering whether to grant a temporary extension of credit period to such customers. The balance of trade receivable that were past due but not impaired increased from approximately RMB17.4 million as at 31 December 2007 to approximately RMB31.5 million as at 31 December 2008 was mainly attributable to the fact that, in our Directors' opinion, the economic slowdown led to our advertising customers further delaying settlement to our Group.

Based on the past experience and repayment history, our Directors believe that no impairment allowance was necessary in respect of these balances as there has not been a significant change in the credit quality of the respective customers and the balances are still considered fully recoverable. In determining the recoverability of the trade receivables, we re-evaluate any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, our Directors believe that no further allowance is required because there was no indication of significant recoverability problem of our advertising customers noted. Furthermore, our Directors are of the view that our Group's credit controls are effective as there was no significant write-off of our trade receivables during the Track Record Period.

As at the Latest Practicable Date, the subsequent settlements of trade receivables that were past due but not impaired as at 31 December 2008 and 31 March 2009 were approximately RMB[28.9] million and RMB[21.5] million, respectively, which represented approximately [92%] and [77]%, respectively of the trade receivables that were past due but not impaired as at the abovementioned balance sheet dates. Furthermore, there was no further bad debt provisions recognised for the three months ended 30 June 2009.

Trade payables and creditors' turnover days

Trade payables mainly represented the outstanding amounts payable by us to our suppliers, such as printers and photographic suppliers. Credits granted by our printers can be divided into two parts: (i) credit periods ranged from approximately 60 to 90 days; and (ii) a specific credit limit denominated in monetary value which ranged from approximately RMB12 million to RMB14 million during the Track Record Period. We would be required to settle our payables due to printers if any one of the following situations were met: the ageing of our outstanding amount has met the granted credit period or the total balance of our outstanding amount has exceeded the credit limit granted by our printers. In general, the effective credit periods granted to us ranged from approximately 30 to 150 days which were negotiated with our suppliers on case-by-case basis. In general, the effective credit periods are longer than the contracted credit periods. It is mainly due to the fact that, practically, as a result of our good business relationships with our printers, we have mutually agreed with two of our major printers in the PRC that we only need to settle our payables upon the cumulative outstanding balances exceeded the agreed credit limits as at the end of each month. Moreover, during the last quarter of the year 2007, we placed printing deposits to one of our major printers in the PRC in return for a temporarily extension of our credit limits. Thus, the effective credit periods are generally longer than the contracted credit periods. For details, please refer to the subsection headed "Other receivable, deposits and prepayment" under the section headed "Financial Information" of this document. We have been advised by our PRC legal adviser that such funding arrangement complies with applicable PRC laws and regulations and that no approval, consent, filing or registration is required from the PRC regulatory authorities.

Our trade payables increased by approximately 7.9% from approximately RMB21.4 million as at 31 December 2006 to approximately RMB23.1 million as at 31 December 2007. The increase was primarily attributable to the increase in printing costs at the last quarter of the year 2007 when compared with the same period of the year 2006 as a result of the launching of namely "汽車生活" (Auto Life) since February 2007, the increase in the number of supplements issues from approximately 58 for the year ended 31 December 2006 to approximately 69 for the year ended 31 December 2007, and the increase in sales of our flagship magazine, "週末畫報" (Modern Weekly) during the year 2007. Our creditors' turnover days increased from approximately 110 days for the year ended 31 December 2006 to approximately 141 days for the year ended 31 December 2007. The increase in creditors' turnover days was mainly attributable to the extension of credit limit granted by one of our printers in the PRC as a result of the placing of 'Printing Deposit' during the year 2007. For details, please refer to the paragraph headed 'Other receivables, deposits and prepayments' in this section.

Our trade payables increased by approximately 22.1% from approximately RMB23.1 million as at 31 December 2007 to approximately RMB28.2 million as at 31 December 2008. The increase was primarily attributable to the increase in the printing costs of the Magazines at the last quarter of the year 2008 when compared with the same period of the year 2007 as a result of the launching of "健康時尚" (LOHAS) and "優家畫報" (U+ Weekly) since January 2008 and December 2008, respectively, and increase in the number of supplements issues from approximately 69 for the year ended 31 December 2007 to approximately 81 for the year ended 31 December 2008. In addition, as a result of the improvement of our operating cash inflow from approximately RMB29.1 million for the year ended 31 December 2007 to approximately RMB37.1 million for the year ended 31 December 2008, so we settled our trade payables earlier. In this connection, our creditors' turnover days decreased from approximately 141 days for the year ended 31 December 2007 to approximately 130 days for the year ended 31 December 2008. As at 31 May 2009, approximately 99.9% of trade payables as at 31 December 2008 have been settled.

Our trade payables decreased by approximately 21.6% from approximately RMB28.2 million as at 31 December 2008 to approximately RMB22.1 million as at 31 March 2009. The decrease was primarily attributable to decrease in our advertising customers' demand for our advertising space during the first quarter of the year 2009 when compared with the last quarter of the year 2008. As discussed in paragraph headed 'Seasonal trend of advertisement expenditures of lifestyle magazines in the PRC' under the section headed 'Financial Information', the pattern of the advertising expenditure of our customers was mainly focusing on the second half of each year of the Track Record Period. As a result of the decrease in demand for our advertising space led to the decrease our printing costs from approximately RMB21.6 million for the three months ended 31 December 2008 to approximately RMB18.5 million for the three months ended 31 March 2009. There was also a decrease in the number of our supplementary issues from approximately 17 for the three months ended 31 December 2008 to approximately 14 for the three months ended 31 March 2009. In this connection our creditors' turnover days decreased from approximately 130 days for the year ended 31 December 2008 to approximately 122 days for the three months ended 31 March 2009.

Other receivables, deposits and prepayments

During the Track Record Period, our Group's other receivables, deposits and prepayments are summarised as below:

		As at 31 December		As at 31 March
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	2,731	7,700	4,099	4,395
Rental, utility and other deposits	1,847	3,851	3,507	3,046
Printing deposits	—	10,728	7,327	458
Advances to employees	663	1,252	3,058	3,013
Value added tax recoverable	1,039	3,333	6,662	7,679
Other receivables	1,792	1,434	2,164	3,880
	8,072	28,298	26,817	22,471

Prepayments mainly represented down payments for expenses such as rental, prepaid expenses for marketing events, deposit paid for leasehold improvement projects and other expenditures.

Printing deposits represented the amount paid to, C&C Joint Printing Company ("C&C"), one of our printers in the PRC, which was an Independent Third Party and started business relationship with our Group in 2006, for the extension of its credit limit granted to us for the year ended 31 December

2007. As at 28 August 2007, a loan in an amount of approximately US$4.0 million (or equivalent to approximately HK$31.2 million or RMB29.0 million) was granted to our Group from an Independent Third Party, who was the then business partner of our Group, to City Howwhy Limited. For details of such loan, please refer to the paragraph headed 'Other loan' below in this section. At that moment, our Directors considered that the receipt from the loan exceeded the then operational cash flows needs of our Group. In order to maximise the efficiency of the cost of capital structure, to utilise our cash on hand denominated in US$ for our business operations in the PRC and with the view to having a closed business relationship with C&C, we had arm-length negotiation and mutually agreed with C&C to place deposits in amount of approximately HK$11 million as a collateral from our Hong Kong offices to its Hong Kong office in order to temporarily extend our credit limit by the equivalent amount in RMB. The amount of printing deposits was determined based on arms-length negotiation between our Group and C&C with reference to our intended extension of the credit limit amounts.

During the Track Record Period, the printing costs paid to this printer were approximately RMB9.4 million, RMB42.3 million and RMB55.0 million, respectively, for each of the three years ended 31 December 2008 and the trade payables to this printer amounted of approximately RMB16.9 million and RMB18.8 million as at 31 December 2007 and 2008, respectively. Our Directors confirm that the determination of the credit limit was based on arm's length negotiation with the printer. Pursuant to the agreements with the printer, when we repaid the extended credits to the printer, the respective amount of our Group's printing deposits would be released and the temporarily extended credit limit will be declined accordingly. The balance of the printing deposits had been fully settled in March 2009.

Our Directors confirm that our Group did not encounter any cashflow problem during the Track Record Period in the view that (i) our Group maintained net current assets in amount of approximately RMB69.0 million, RMB83.9 million and RMB88.2 million as at each of the balance sheet date of the three financial years ended 31 December 2008, (ii) the gearing ratio of our Group was maintained at a low level at approximately 0.0%, 12.6% and 13.0% as at each of the balance sheet date of the three financial years ended 31 December 2008, and (iii) our Group maintained a positive net cash inflow from the operating activities in amount of approximately RMB8.4 million, RMB29.1 million and RMB37.1 million for each of the three financial years ended 31 December 2008, respectively. In the view of our Directors that the improvement of our Group's operating cash as discussed above and the repayment of other loan to the then business partner pursuant to the loan agreement as discussed in the paragraph headed "Other loan" under the section headed "Financial Information" in this document, our Directors terminated such temporary funding arrangement in March 2009.

Advances to employees mainly represented cash in advance to our staff for their travelling expenditures incurred in the course of their business trip. We normally requested our staff to settle the amount immediately following their return from the business trips.

Our other receivables, deposits and prepayments increased by approximately 249.4% from approximately RMB8.1 million as at 31 December 2006 to approximately RMB28.3 million as at 31 December 2007. The increase was mainly attributable to (i) an increase in prepayments from approximately RMB2.7 million as at 31 December 2006 to approximately RMB7.7 million as at 31 December 2007 as a result of the down payment made for the leasehold improvements of our Beijing and Shanghai offices at the end of the year 2007; and (ii) the payment of printing deposit to one of our printers during the year 2007 as discussed in the above paragraph.

Our other receivables, deposits and prepayments decreased by approximately 5.3% from approximately RMB28.3 million as at 31 December 2007 to approximately RMB26.8 million as at 31 December 2008. The decrease was mainly attributable to the combined effects of (i) the decrease in the prepayments from approximately RMB7.7 million as at 31 December 2007 to approximately RMB4.1 million at 31 December 2008 as a result of the utilisation of our down payment made for the leasehold improvement project of our Beijing and Shanghai offices during the year 2008; and (ii) the decrease in printing deposit from approximately RMB10.7 million as at 31 December 2007 to approximately RMB7.3 million as at 31 December 2008 as a result of the settlement of approximately HK$2 million (or equivalent to approximately RMB1.8 million) of the printing deposits as at 31 December 2008.

Our other receivables, deposits and prepayments decreased by approximately 16.0% from approximately RMB26.8 million as at 31 December 2008 to approximately RMB22.5 million as at 31 March 2009. The decrease was mainly attributable to the combined effect of (i) the decrease in printing deposit from approximately RMB7.3 million as at 31 December 2008 to approximately RMB0.5 million as at 31 December 2008 as a result of the settlement and the termination of the arrangement of the printing deposit with C&C in March 2009 as mentioned above and (ii) the increase in other receivables from approximately RMB2.2 million as at 31 December 2008 to approximately RMB3.9 million as at 31 March 2009, which was mainly due to the increase in our Group's advance to the staff for the daily operation of our distribution offices in the PRC for the three months ended 31 March 2009.

Other payables and accruals

During the Track Record Period, our Group's other payables and accruals are summarised below:

	As at 31 December			As at 31 March
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued expenses	4,760	6,438	8,038	6,389
Deposits received in advance	7,181	5,385	3,682	2,776
Salaries, wages, bonus and benefits payables	13,864	19,290	15,548	10,017
Other tax payables	8,449	8,449	11,642	7,634
Other payables	1,784	1,816	17,470	6,712
	36,038	41,378	56,380	33,528

Accrued expenses mainly represented the accrual of production expenses, audit fee and other office expenses of our Group which are summarised below:

	For the year ended 31 December			As at 31 March
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Production expenses	2,106	2,454	2,597	3,307
Audit fee	1,578	2,308	2,062	2,292
Other office expenses	1,076	1,676	3,379	790
	4,760	6,438	8,038	6,389

Deposits received in advance mainly represented the deposits received from our advertising customers such as certain real estates advertisers and other new advertisers of which we decided the amount of the deposits required on case-by-case basis for purchase of the Magazines' advertising spaces according to the sales contracts. In general, we received the deposit before posting the advertisement or rendering of respective advertising services to our advertising customers.

Other tax payables mainly represented the business tax, cultural business development charge and value-added tax payables of our Group's operations in the PRC. Pursuant to 財稅字[1997]95號: 文化事業建設費徵收管理暫行辦法 (CaiShuiZi [1995] no. 95 guideline on temporary levying arrangement of cultural business development charge*), cultural business development charge was applicable to the enterprises in the PRC entertainment and advertising industry which charged at 3% of the applicable revenue on annual basis.

Other payables mainly represented some miscellaneous expenses payable such as photographic costs payable and marketing expenses payable as at the end of each of the financial years ended 31 December 2008.

Our other payables and accruals increased by approximately 15.0% from approximately RMB36.0 million as at 31 December 2006 to approximately RMB41.4 million as at 31 December 2007. The increase was primarily attributable to the combined effect of (i) an increase in our salaries, wages, bonus and benefits payables from approximately RMB13.9 million as at 31 December 2006 to approximately RMB19.3 million as at 31 December 2007 as a result of the increase in our Group's monthly average headcount from approximately 429 for the year ended 31 December 2006 to approximately 523 for the year ended 31 December 2007 and the effective salary increment of approximately 18% during the year 2007; (ii) an increase in our accrued expenses from approximately RMB4.8 million as at 31 December 2006 to approximately RMB6.4 million as at 31 December 2007 as a result of expansion of our business operations and increase in number of our offices in Beijing and Guangzhou during the year 2007 which led to an increase in our accrual of audit fee from approximately RMB1.6 million as at 31 December 2006 to approximately RMB2.3 million for the year ended 31 December 2007 and increase in accrual of other office expenses from approximately RMB1.0 million as at 31 December 2006 to approximately RMB1.7 million for the year ended 31 December

2007, and (iii) the decrease in deposits received in advance from approximately RMB7.2 million for as at 31 December 2006 to approximately RMB5.4 million as at 31 December 2007 as a result of the decrease in advertisers of the real estates sector in PRC during the last quarter of year 2007 as affected by the austerity measures implemented by the PRC government.

Our other payable and accruals further increased by approximately 36.2% from approximately RMB41.4 million as at 31 December 2007 to approximately RMB56.4 million as at 31 December 2008. The increase was mainly attributable to the combined effects of (i) the consideration payable for the acquisition of our Beijing office in the amount of approximately RMB11.5 million as at 31 December 2008; (ii) an increase in accrual expenses from approximately RMB6.4 million as at 31 December 2007 to approximately RMB8.0 million as at 31 December 2008 as a result of expansion of our business operations, leasing new office premises in Beijing, Harbin and Tianjin during the year 2008 and the purchase of office premises in Beijing during the fourth quarter of the year 2007 which led to an increase in accrual of other office expenses from approximately RMB1.7 million as at 31 December 2007 to approximately RMB3.4 million for the year ended 31 December 2008; (iii) the decrease in salaries, wages, bonus and benefits payables from approximately RMB19.3 million for the year ended 31 December 2007 to approximately RMB15.5 million for the year ended 31 December 2008 as a result of the management's decision to decrease the year-end bonus payable to our staff as a result of the global economic downturn since the fourth quarter of the year 2008, and (iv) increase in other tax payable from approximately RMB8.5 million as at 31 December 2007 to approximately RMB11.6 million for the year ended 31 December 2008. Such increase was mainly attributable to the value-added tax payable derived from a sales transaction between our Group and Shanghai Senyin, a related company of our Group, during the year ended 31 December 2008. As at 1 January 2008, Zhuhai Technology entered into a sales and purchase agreement with Shanghai Senyin to sell the user rights of the MMS to Shanghai Senyin on the condition that the MMS is technically compatible to Shanghai Senyin and the value-added tax payable in the amount of approximately RMB3.3 million was arised from the transaction. However, to the best knowledge of our Directors, Shanghai Senyin was unable to adapt the MMS into its own operations after the implementation of the MMS due to several technical problems. Accordingly, at the end of year 2008, Zhuhai Technology and Shanghai Senyin mutually agreed to cancel the abovementioned transaction. Our Directors confirm that all the transactions in relation to the abovementioned transactions had been settled as at the Latest Practicable Date.

Our other payable and accruals further decreased by approximately 40.6% from approximately RMB56.4 million as at 31 December 2008 to approximately RMB33.5 million as at 31 March 2009. The decrease was mainly attributable to the combined effect of (i) the decrease in our other payables from approximately RMB17.5 million as at 31 December 2008 to approximately RMB6.7 million as at 31 March 2009 as a result of the transfer of consideration payable of approximately RMB11.5 million for the acquisition of our Beijing office for the three months ended 31 March 2009; (ii) decrease in other tax payable from approximately RMB11.6 million as at 31 December 2008 to approximately RMB7.6 million as a result of the settlement of the value-tax payables derived from the sales transactions of our MMS as stated in the above paragraph during the three months ended 31 March 2009; (iii) decrease in our salaries, wages, bonus and benefits payables from approximately RMB15.5 million as at 31 December 2008 to approximately RMB10.0 million as at 31 March 2009 that was mainly due to the decrease in the management's budget on the staff bonus and double pay for three months ended 31 March 2009; and (iv) decrease in our accrued expenses from approximately RMB8.0 million as at 31 December 2008 to approximately RMB6.4 million as at 31 March 2009 that was mainly attributable to our management's implementation of tight control over the office expenses during the three months ended 31 March 2009 which led to decrease in our accrual of other office expenses as at 31 March 2009 accordingly.

Current ratios

The current ratio of our Group decreased gently from approximately 2.1 as at 31 December 2006 to approximately 1.8 as at 31 December 2007. The decease was mainly attributable to a loan granted by the then business partner, who was an Independent Third Party, in the amount of approximately US$4.0 million (or equivalent to approximately HK$31.2 million or RMB27.5 million) at 28 August 2007. Hereafter, the current ratio maintained at approximately 1.6 as at 31 December 2008.

Our current ratio increased from approximately 1.6 as at 31 December 2008 to approximately 1.9 as at 31 March 2009 was primarily attributable to the repayment of our other loan to our then business partner during March 2009 and the decrease in our other payables and accruals as stated in the paragraph headed 'Other payables and accruals' in this section.

Gearing ratio

Our gearing ratio increased from approximately 0.0% as at 31 December 2006 to approximately 12.6% as at 31 December 2007, and maintained at approximately 13.0% as at 31 December 2008 and decreased to approximately 9.4% as at 31 March 2009.

The increase in our gearing ratio from the year 2006 to the year 2007 was mainly attributable to the advance of a loan from the then business partner, who was an Independent Third Party, in the amount of approximately US$4.0 million (or equivalent to approximately HK$31.2 million or RMB27.5 million) at 28 August 2007.

The slight increase in our gearing ratio from the year 2007 to the year 2008 was mainly attributable to the combined effects of (i) the acquisition of properties in Beijing as office premises and increase in the balance of trade receivable, which contributed to the increase in our total assets from approximately RMB229.8 million as at 31 December 2007 to approximately RMB301.4 million as at 31 December 2008; and (ii) the decrease in valuation of other loan from approximately RMB29.0 million as at 31 December 2007 to approximately RMB27.6 million as at 31 December 2008.

Our gearing ratio decreased from December 2008 to March 2009 was mainly attributable to the repayment of other loan in March 2009.

Other loan

The then business partner, an Independent Third Party, is an international multi-media company. Since the end of year 2006, our Group had been in negotiation with the then business partner to explore cooperation opportunity with our Group in the PRC Media Industry. At the end of 2008, our Group understood from the then business partner that she had adjusted her global investment strategies owing to the outburst of global financial turmoil and accordingly terminated the aforesaid negotiation of cooperation. Pursuant to a loan agreement dated 28 August 2007 entered into between City Howwhy and the then business partner, the then business partner offered to grant a US$4 million interest-free loan to our Group for our further business development in Hong Kong and the PRC. Under the terms of such loan, the loan is repayable on demand and has been secured by pledges over the entire issued share capital of two of our wholly owned subsidiaries (namely, Modern Media (HK) and City Howwhy) and also the personal guarantee of Mr. Shao. Furthermore, the loan is interest-free from 5 September 2007, the date of the drawdown of the loan by our Group ("**Drawdown Date**") to the maturity date of the loan, except that in the event of our Group failing to repay the agreed amount as at the maturity dates in accordance with the applicable loan agreement, the interest will be charged at the rate of 9% per annum on the amount from the Drawdown Date to the date of actual payment in full of the loan. A supplemental agreement to the above loan agreement was entered into between City Howwhy and the then business partner dated 27 February 2009 whereby the remaining loans are repayable by instalments on or before 31 March 2010 and are interest-free for the period from the drawdown date of the loan to 31 March 2010, except that in the event of our Group failing to repay any of the instalments, the interest will be charged at a rate of 9% per annum on the amount from the Drawdown Date to the date of actual payment in full of the loan instalment. In addition, the then business partner had agreed in principle to release the pledging arrangement of Modern Media (HK)'s and City Howwhy's entire issued share capital and Mr. Shao's personal guarantee before or upon the [●] and to be replaced by substitute security to be provided by members of our Group.

As at 31 March 2009, approximately US$2.0 million (or equivalent to approximately RMB13.7 million), which accounted for approximately 50% of other loan, has been settled with our internally-generated fund from our business operation.

We have obtained advice from our legal advisers who then advised us that in connection with the above loan and, in gist, the documents in connection with the above loan will be treated by the Hong Kong courts as legally binding, valid and enforceable obligations of City Howwhy, and that the performance of obligations and exercise of its rights thereunder by City Howwhy do not and will not conflict with any law or regulation of Hong Kong (including but not limited to the Listing Rules); or the memorandum and articles of association of City Howwhy.

Bank loan

In January 2009, we borrowed a bank loan in an aggregate amount of approximately RMB10.5 million with a variable interest rate based on the benchmark interest rate issued by the People's Bank of China repayable by monthly installation over a term of 10 years. The bank loan was secured by a mortgage over our Beijing office with a carrying value of approximately RMB38.1 million as at 31 March 2009. As at 31 March 2009, the outstanding balance of the bank loan was approximately RMB10.4 million.

Interest in an associate

In July 2007, our Group acquired a 20% equity interest in Tianjin Holiday from an Independent Third Party for a consideration of RMB8.1 million of which RMB5.1 million was the goodwill arising from the acquisition of Tianjin Holiday representing the difference between the consideration and the fair value of identifiable assets/liabilities acquired. The balance of interest in an associate as at each of the balance sheet date of the two years ended 31 December 2008 represents the sum of our Group's share of net assets and goodwill. Interest in an associate increased by approximately 10.5% from approximately RMB8.6 million as at 31 December 2007 to approximately RMB9.5 million as at 31 December 2008 was mainly attributable to our Group's share of Tianjin Holiday's net profit in the amount of approximately HK$0.9 million for the year ended 31 December 2008. Our interest in an associate as at 31 March 2009 further decreased to approximately RMB9.4 million was mainly attributable to our share of loss in the amount of approximately RMB57,000 for the three months ended 31 March 2009.

Interest in jointly controlled entity

In April 2007, Guangzhou Modern Information entered into a joint venture agreement with an Independent Third Party to establish a jointly controlled entity, Sichuan Shangdus with a registered capital of RMB2,000,000. The balance of interest in the jointly controlled entity as at each of the balance sheet date of the two years ended 31 December 2008 represented the sum of our Group's share of net assets and amount due from the jointly controlled entity. The net balance of interest in jointly controlled entity decreased by approximately 67.2% from approximately RMB1.0 million as at 31 December 2007 to approximately RMB328,000 as at 31 December 2008 and further decreased to approximately RMB302,000 as at 31 March 2009 was mainly attributable to the decrease in the share of net assets since the jointly controlled entity was loss-making for the year 2007 and 2008 and for the three months ended 31 March 2009.

Amounts due from related parties

The amount due from related parties included (i) the amount due from a director and (ii) the amount due from related companies during the Track Record Period.

(i) *amounts due from a director*

The amounts due from a director as at 31 December 2006, 2007 and 2008 and 31 March 2009 represented the receivable balances arising from non-trade advance to our director during the Track Record Period of which were unsecured, non-interest bearing and are repayable on demand. Our Director confirmed that such amount will be settled prior to the [●].

(ii) *amounts due from related companies*

Amounts due from related companies represented the amounts advanced to support the working capital and business development of these related companies and amounts receivables for services rendered to these related companies. The amounts are unsecured and interest-free. As at the Latest Practicable Date, the receivables from Guangzhou Zhongde in the amount of approximately RMB[15,152,000] will be settled by installment of approximately RMB[600,000] every two months starting from [January 2010] until full settlement in [2014]. The settlement terms granted to Guangzhou Zhongde were determined after the arm's length negotiation and mutual agreement of both parties. As at the [Latest Practicable Date], our Directors did not identify any recoverability issues of Guangzhou Zhongde. In addition, to the best knowledge of our Directors, Guangzhou Zhongde have maintained a stable business relationship with one of the mobile telecommunication services providers in the PRC and therefore, our Directors are of the view that Guangzhou Zhongde will have sufficient cash flow to settle the outstanding balance in accordance with the agreed repayment schedule.

As advised by our PRC legal adviser, since our Group does not have the requisite qualifications in the PRC to engage in the money lending and borrowing transactions between corporations under the prevailing PRC laws and regulations, the lending of the money by our Group to Guangzhou Zhongde is not allowed under the relevant PRC laws and regulations and the financing agreements or arrangements concerned will be nullified. If the lender or the borrower is in dispute of such kind of financing agreements or arrangements and commence proceedings in the courts of the PRC, the relevant court will order the repayment of the principal amount by the borrower, but the interest charged or agreed to be charged by the lenders shall be determined as forfeited by the PRC court. In addition, the lenders may be subject to a fine which is equal to one to five times of the agreed interest or interest charged. As no interest has been agreed between our Group and Guangzhou Zhongde or charged by our Group in the past with respect to the money advanced, no PRC laws has prescribed that penalty will be imposed on our Group by any court of the PRC in respect of such amount advanced to Guangzhou Zhongde.

Nevertheless, the Controlling Shareholder has undertaken to indemnify our Group for any potential losses, costs, expenses or damages arising from or in connection with such settlement terms granted or the repayment thereof. Furthermore, our Directors have confirmed that the details of the settlement status of the amounts advanced to Guangzhou Zhongde will be disclosed in the annual reports of our Company until the outstanding amounts advanced have been fully settled. In addition, our independent non-executive Directors would review, at least on an annual basis, whether any claims under the indemnity provided by the Controlling Shareholder is necessary, and whether such claim has been settled.

Tax recoverable

Tax recoverable in the amount of approximately RMB566,000, RMB535,000 and RMB535,000 as at 31 December 2007, 31 December 2008 and 31 March 2009, respectively mainly represented the outstanding balance of the tax reserve certificates of Inland Revenue Department of Hong Kong ("**IRD**") purchased by our Group. On 27 September 2007, our Group took the initiative to submit a revised tax computation to the IRD since there was an update on the financial figures in the audited account of Modern Media (HK) for the year 2006 with a lower assessable profits. Pending the IRD's determination of our tax computation revision and as requested by the IRD, our Group purchased a tax reserve certificate in the amount of approximately HK$605,000 during the Track Record Period. [As at the Latest Practicable Date, we were still waiting for the IRD's finalisation of our tax computation revision.]

Taxation payable

Taxation payable mainly represented the accrual of income tax liabilities to the tax authorities in the PRC and Hong Kong. Our Directors consider that our Group's accruals for tax liabilities are adequate for the Track Record Period based on the management's assessment of many factors including past experience and interpretations of applicable tax laws. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events such as the recoverability of the trade debtors. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact income tax expenses in the period in which such determination is made. The balance increased from approximately RMB7.8 million as at 31 December 2006 to RMB13.3 million as at 31 December 2007 and further increased to approximately RMB24.2 million as at 31 December 2008 was mainly attributable to the increase in our Group's taxable profit and increase in the effective tax rate as discussed in the paragraphs headed 'Income tax' under the subsection headed 'Year-to-year analysis of our trading record' in the 'Financial Information' section of this document. Our tax payable decreased by approximately 7.0% from approximately RMB24.2 million as at 31 December 2008 to approximately RMB22.5 million as at 31 March 2009 was mainly attributable to the combined effect of our settlement of the tax liabilities to respective tax authorities and our Group was loss-making for the three months ended 31 March 2009. As at 30 June 2009, the amount of subsequent settlement of tax payable was approximately RMB10.5 million or 43.4% of the tax payable as at 31 December 2008. The relatively low subsequent settlement of income tax payable was mainly attributable to the fact that there were provision for EIT in relation to the potential tax liabilities arising from the certain items which were identified by our Directors in the course of preparation of our Group's financial information during the Track Record

Period that may be subject to tax according to strict interpretation of PRC tax laws. The items mainly represented (i) tax liabilities from potential deemed sales revenue derived from the complimentary copies issued by our Group. During the Track Record Period, our Group's circulation income was recognised when the Magazines were delivered to the distributors, net of the actual return of the Magazines. Accordingly, the deemed sales value of the complimentary copies was not recognised in the profit or loss in accordance with our Group's recent accounting policies. However, to the best knowledge of our Directors, the circulation of complimentary copies might be taxable under the prevailing PRC tax laws and therefore, provision for EIT in relation to such deemed sales was provided; and (ii) to the best knowledge of our Directors, the deductibility of promotional expenses were subject to certain predetermined threshold amount in the calculation of assessable income for EIT purpose under the prevailing PRC tax laws. As such our Directors considered that there might be certain amounts of promotional and marketing expenses that would exceed such threshold and rendered potential tax liabilities for the Track Record Period. For prudence sake, our Directors recognised further provision for EIT in relation to those expenses in the income statements for the Track Record Period. As at Latest Practicable Date, we have obtained confirmation from the relevant PRC tax bureaus confirming that our Group's subsidiaries and PRC Operational Entities had already settled all of the outstanding tax payment during the Track Record Period.

Our Group's Hong Kong profit tax liabilities during the Track Record Period mainly related to two of our Group's subsidiaries in Hong Kong, City Howwhy and Modern Media (HK). City Howwhy had assessable profits for the year 2006 and 2007 which were fully offset by the tax loss carried forward from the year assessment 2005/2006. On the other hand, Modern Media (HK) has re-submitted a revised profits tax computation for the year ended 31 December 2006 as stated in the paragraph headed 'Tax recoverable' in this section. Modern Media (HK) was still pending for the IRD's determination of our tax computation revision as at the [Latest Practicable Date]. Our Directors confirm that City Howwhy and Modern Media (HK) had not yet received any further notice from the IRD for further tax payment for the years 2006, 2007 and 2008 as at the [Latest Practicable Date] and therefore, no Hong Kong profit tax was paid during the Track Record Period.

FINANCIAL RISKS MANAGEMENT

Our Group's business and operations in the PRC and Hong Kong expose us primarily to the financial risks such as credit risk, liquidity risk, foreign currency risk and interest rate risk. Financial risk exposures are measured by sensitivity analysis. There has been no change to our exposure to financial risks or the manner in which we manage and measure the risk during the Track Record Period. Details of each type of financial risks are described below.

Credit risk management

Other than concentration of credit risks on trade receivables in amount of approximately RMB94.2 million as at 31 December 2008 and RMB73.0 million as at 31 March 2009, we have no significant concentrations of credit risk. The trade receivables from our Group's largest customer and our Group's five largest customers represented 12% and 35% of our Group's total trade receivables as at 31 December 2008 and 11% and 40% of our Group's total trade receivables as at 31 March 2009. Our historical experience in the collection of trade receivables falls within the recorded impairment of trade receivables, and our Directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the financial information.

The carrying amount of cash and cash equivalents, trade receivables and other receivables, deposits and prepayments included in our combined balance sheet represented our maximum exposure to credit risk in relation to our financial assets during the Track Record Period. We have policies in place to ensure that credit sales of our goods and services are made to customers with an appropriate credit history, and we perform periodic credit evaluations of our customers. All of our cash and cash equivalent are placed with major financial institutions in Hong Kong and the PRC that are high-credit quality and meet the established credit rating or other criteria.

Liquidity risk management

Our Group's policy is to regularly monitor our current and expected liquidity requirements to ensure that our Group maintains adequate cash inflows from operations and sufficient reserves of cash to meet our debt obligations as they fall due and our ability to obtain external financing to meet our committed future capital expenditure. We typically ensure that we have sufficient cash on demand to meet expected operation expenses for a period of 60 days without taking into account the potential impact of extreme circumstances such as natural disasters, which we cannot reasonably predict. With regards to our future capital commitments and other financing requirements, our Group has obtained and utilised mortgage facilities with the bank for an amount of RMB10.5 million in January 2009.

Interest rate risk management

Our interest rate risk relates primarily to our bank deposits and our bank loan. As at 31 December 2006, 2007 and 2008, our Group has no outstanding bank borrowings and as at 31 March 2009, the outstanding bank borrowing was approximately RMB10.4 million. A reasonably possible change of 100 basis points in interest rates would have no material impact on our Group's profit or loss for the year ended 31 December 2006, 2007 and 2008 and for the three months ended 31 March 2009 and there was no material impact on our Group's equity.

Foreign currency risk management

As most of our Group's monetary assets and liabilities are denominated in Renminbi and our Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of our Group is not significant. We have not used any financial instruments to hedge against currency risk. However, our management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure should the needs arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

Our cash needs have historically related primarily to purchases in property and office equipment, daily operating activities and repayment of loans. We have secured our cash resources from operating activities and bank loan. We intend to obtain short-term borrowings in order to finance our cash needs not met by our operating cashflows and other capital resources. Our policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, if any, to ensure that we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. Based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that with the proceeds from the [●], our cash and bank deposits, cash flow from operations, our banking relationships with principal bankers will enable us to meet our working capital, capital expenditures, and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depend on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control.

We had cash and cash equivalent of approximately RMB17.8 million, RMB46.4 million, RMB37.3 million, and RMB11.6 million as at 31 December 2006, 2007 and 2008 and 31 March 2009, respectively.

We had net current assets of approximately RMB69.0 million, RMB83.9 million, RMB88.2 million, and RMB87.4 million as at 31 December 2006, 2007 and 2008 and 31 March 2009, respectively.

As at 31 December 2008, our net current assets were approximately RMB88.2 million. The key components of our current assets as of such date included cash and cash equivalent of approximately RMB37.3 million, trade receivables of approximately RMB94.2 million, other receivables, deposits and prepayments of approximately RMB26.8 million and amount due from related parties of approximately RMB65.8 million. The key components of our current liabilities included trade payables of approximately RMB28.2 million, other payables and accruals of approximately RMB56.4 million, other loan of approximately RMB27.6 million and taxation payable of approximately RMB24.2 million.

As at 31 March 2009, our net current assets were approximately RMB87.4 million. The key components of our current assets as of such date included cash and cash equivalent of approximately RMB11.6 million, trade receivables of approximately RMB73.0 million, other receivables, deposits and prepayments of approximately RMB22.5 million and amounts due from related parties of approximately RMB72.4 million. The key components of our current liabilities included trade payables of approximately RMB22.1 million, other payables and accruals of approximately RMB33.5 million, bank loan of approximately RMB0.8 million, other loan of approximately RMB13.8 million and taxation payable of approximately RMB22.5 million.

	Years ended 31 December			Three months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Net cash generated from/(used in) operating activities	8,376	29,099	37,077	(13,326)	(20,490)
Net cash used in investing activities	(4,198)	(29,474)	(45,489)	(13,075)	(1,816)
Net cash (used in)/generated from financing activities	(655)	29,028	—	—	(3,372)
Net increase/(decrease) in cash and cash equivalents	3,523	28,653	(8,412)	(26,401)	(25,678)
Cash and cash equivalents at the beginning of the year/period	14,343	17,815	46,379	46,379	37,291
Effect of foreign exchange rates changes	(51)	(89)	(676)	(231)	(3)
Cash and cash equivalents at the ending of the year/period	17,815	46,379	37,291	19,747	11,610

Financial resources and capital structure

Capital structure

We had net current assets of approximately RMB69.0 million, RMB83.9 million, RMB88.2 million, and RMB87.4 million as at 31 December 2006, 2007 and 2008 and 31 March 2009.

Cash flow

We generally finance our operations through a combination of shareholders' equity and internally generated cash flows. Following the completion of the [●], we expect to finance our capital expenditure and operational requirements through internally generated cash flows, net proceeds from the [●], and our cash reserve.

As at 31 March 2009, we had bank and cash balances of approximately RMB11.6 million and did not have any unutilised banking facilities.

Net cash generated from operating activities

Our major operating cash flows during the Track Record Period were the sales of advertising spaces, circulation income from magazines and payments for the printing costs and staff cost.

We had a net cash generated from operating activities of approximately RMB8.4 million for the year ended 31 December 2006 while our profit before taxation for the same year was approximately

RMB41.4 million. The cash generated from operations of approximately RMB9.3 million was primarily attributable to the combined effect of (i) an increase in trade receivables of RMB26.5 million as a result of increase in turnover of our Group in year 2006; (ii) an increase in trade payables of approximately RMB7.6 million as a result of increase in our trade payables to our printers in order to cope with the increase in sales; and (iii) an increase in other payables and accruals of approximately RMB8.0 million which was mainly due to increase in our accruals of office expenses and salaries wages, bonuses and benefit payables as a result of the expansion of our business operations, salaries increment and increase in our Group's headcount during the year 2006.

We had a net cash generated from operating activities of approximately RMB29.1 million for the year ended 31 December 2007, while our profit before taxation for the same year was approximately RMB49.6 million. The operating cash inflow of approximately RMB29.1 million was primarily due to the composite effects of (i) a decrease in trade receivables of approximately RMB3.2 million as a result of improvement in the collection of debt implemented by our management during the year 2007 ; (ii) an increase in other receivables, deposits and prepayments of approximately RMB20.2 million as a result of the down payment made for the leasehold improvement of our Beijing and Shanghai offices at the end of the year 2007 and the payment of printing deposits to one of our PRC printers during the year 2007; and (iii) an increase in other payables and accruals of RMB5.3 million which was mainly due to the increase in the salaries, wages, bonus and benefit payables as a result of the salaries increment and increase in our Group's headcount during the year 2007.

We had a net cash generated from operating activities of approximately RMB37.1 million for the year ended 31 December 2008 while our profit before taxation for the same period was approximately RMB57.0 million. The operating cash inflow of approximately RMB38.1 million was mainly contributed from the composite effects of (i) an increase in trade receivables of approximately RMB22.2 million as a result of increase in the turnover during 2008 and customers delayed their payments due to the outburst of the global economic downturn since the last quarter of the year 2008, (ii) increase in other payables and accruals of RMB15.0 million which was mainly due to the consideration payable for the acquisition of our Beijing office and increase in office expenses accruals as a result of our business expansion and increase in number of our offices in Beijing, Harbin and Tianjin during the year 2008.

We had a net cash used in operating activities of approximately RMB20.5 million for the three months ended 31 March 2009 while our loss before taxation for the same period was approximately RMB11.0 million. The operating cash outflow of approximately RMB18.3 million was mainly contributed from the composite effects of (i) an decrease in trade receivables of approximately RMB21.0 million as a result of decrease in our advertising income during the three months ended 31 March 2009, (ii) a decrease in other payables and accruals of RMB23.3 million which was mainly due to the decrease in consideration payable for the acquisition of our Beijing office as a result of the borrowing of bank loan in January 2009 in order to settle the said consideration payable, and (iii) settlement of our trade payables for the three months ended 31 March 2009.

Net cash used in investing activities

The major cash used in our investing activities during the Track Record Period were our capital expenditures for fixed assets.

Our net cash used in investing activities increased from approximately RMB4.2 million for the year ended 31 December 2006 to approximately RMB29.5 million for the year ended 31 December 2007. The substantial increase was mainly attributable to the combined effects of (i) the deposit paid for the acquisition of a property in Beijing, and (ii) the acquisition of an associate, Tianjin Holiday and capital injection in a jointly controlled entity, Sichuan Shangdu Media Company Limited during the year 2007.

Our net cash used in investing activities increased from approximately RMB29.5 million for the year ended 31 December 2007 to approximately RMB45.5 million for the year ended 31 December 2008 was mainly due to the payment for the acquisition of a property in Beijing and respective capital expenditure on leasehold improvement during the year 2008.

Our net cash used in investing activities decreased to approximately RMB1.8 million for the three months ended 31 March 2009 was mainly due to the decrease in the acquisition of fixed assets for the three months ended 31 March 2009.

Net cash (used in)/generated from financing activities

Our financing activities during the Track Record Period included proceeds from other loan and repayments of bank loans and finance costs.

For the year ended 31 December 2006, we had a net cash used in financing activities amounted to approximately RMB0.7 million, whereas, for the year ended 31 December 2007, we had a net cash generated from financing activities of approximately RMB29.0 million. The change from cash outflow to cash inflow during the two years was mainly attributable to the fact that we made a repayment of bank loan of approximately RMB0.6 million for the year ended 31 December 2006 when compared to a proceed from other loan in the amount of approximately RMB29.0 million for the year ended 31 December 2007.

For the three months ended 31 March 2009, we had a net cash used in financing activities of approximately RMB3.4 million which was mainly attributable to the combined effects of the repayment of our other loan in amount of approximately RMB13.6 million to our then business partner and the proceeds from bank loans in the amount of approximately RMB10.5 million for the payment of consideration payable for the acquisition of our Beijing office.

Net current assets/(liabilities) as at 30 June 2009

As at 30 June 2009, we had net current assets of approximately RMB[●] million, comprising current assets of approximately RMB197.7 million and current liabilities of approximately RMB[●] million. The following table sets out the composition of our unaudited current assets and liabilities as at 30 June 2009:

Capital structure

As at 31 March 2009, we had net assets of approximately RMB155.5 million, comprising non-current assets of approximately RMB77.7 million (principally consisting of land and buildings held for own use and the leasehold improvements), net current assets of approximately RMB87.4 million and non-current liabilities of approximately RMB9.6 million.

Capital expenditure management

We expect to meet future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operating activities, and the expected net proceeds from the [●]. The amount of our capital expenditures during the Track Record Period are shown as follows:

	For the year ended 31 December			**For the three months ended 31 March**
	2006	**2007**	**2008**	**2009**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Capital expenditure	4.9	3.7	64.1	1.9

Our capital expenditure increased by approximately 1,632.4% from approximately RMB3.7 million for the year ended 31 December 2007 to approximately RMB64.1 million for the year ended 31 December 2008 was mainly attributable to the purchase and the leasehold improvement of our new office in Beijing during the year 2008.

Operating lease commitment

At 31 December 2006, 2007 and 2008 and 31 March 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 31 March
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leases expiring:				
Within 1 year	8,095	10,662	12,436	13,139
After 1 year but within 5 years	2,567	11,450	8,454	5,607
	10,662	22,112	20,890	18,746

Our Group leases a number of properties which are classified as operating leases. These leases typically are for a term of initially of one to five years with an option to renew (subject to renegotiation). None of the leases include contingent rentals.

The commitments under these operating leases increased from approximately RMB10.7 million as at 31 December 2006 to approximately RMB22.1 million as at 31 December 2007 was primarily attributable to the increase in number of the leased properties of our Group from approximately 14 units in 2006 to 17 units in 2007 due to our business expansion in Shanghai, Beijing and Guangzhou during the year ended 2007.

The commitments under these operating leases decreased from approximately RMB22.1 million as at 31 December 2007 to approximately RMB20.9 million as at 31 December 2008 was primarily attributable to the relocation of our Beijing office from a leased property to our Group's own premise purchased in 2008.

Directors' opinion on the sufficiency of our working capital

Our Directors are of the opinion that the working capital available to our Group is sufficient for our present requirements for the next 12 months commencing from the date of the publication of this document taking into consideration:

a) our cash flow from operating activities had been improving during the three years ended 31 December 2008 from approximately RMB8.4 million for the year ended 31 December 2006 to approximately RMB37.1 million for the year ended 31 December 2008;

b) our management believes that our existing banking facilities will continue to be available during the next 12 months from the date of this document;

c) cash required for our expansion plans could be satisfied by the proceeds from the [●]; and

d) our historical working capital had proven to be sufficient for the operation of our Group during the Track Record Period.

INDEBTEDNESS

Borrowings

As at [31 July] 2009, our Group had total outstanding borrowings of approximately RMB[32.0] million, which comprised secured bank loans of RMB[18.2] million and secured other loan of RMB[13.8] million. The table below summarises our borrowings as of the dates indicated:

	As at 31 December			As at 31 March	As at 31 July
	2006	**2007**	**2008**	**2009**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Bank loans					
Repayable within 1 year or on demand	—	—	—	781	[1,408]
Repayable after 1 year but within 2 years	—	—	—	834	[1,503]
Repayable after 2 years but within 5 years	—	—	—	2,854	[5,143]
Repayable after 5 years	—	—	—	5,949	[10,147]
	—	—	—	9,637	[16,793]
	—	—	—	10,418	[18,201]
Other loan					
Repayable within 1 year or on demand	—	29,028	27,596	13,779	[13,774]
Total borrowings	—	29,028	27,596	24,197	[31,975]

As of the close of business on [31 July] 2009, being the Latest Practicable Date, our Group has total available banking facilities amounted to RMB[18.2] million which has been fully utilised.

Securities

As at [31 July] 2009, our Group's bank loans were secured by mortgages over the properties in Beijing, the PRC, in aggregate carrying value of RMB[37.5] million, and guaranteed by Mr. Shao in respect of the bank loans granted by the bank. Such personal guarantee will be replaced by corporate guarantee by our Group on or prior to the listing of the Shares of the Company on the Stock Exchange.

As at [31 July] 2009, our Group's other loans were secured by the entire issued share capital of Modern Media Company Limited and City Howwhy Limited, the wholly-owned subsidiaries of our Group. Mr. Shao provided personal guarantee to an Independent Third Party in respect of the other loan granted by the Independent Third Party. The personal guarantee, together with the security of the share capital of the wholly-owned subsidiaries, will be replaced by corporate guarantee by our Group on or prior to the listing of the shares of the Company on the Stock Exchange.

Contingent liabilities

As at [31 July] 2009, our Group had no material contingent liabilities. Our Group has not involved in any current material legal proceedings, nor are our Group aware of any pending or potential material legal proceedings involving our Group. If our Group was involved in such material legal proceedings, our Group would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Disclaimer

Save as disclosed in "Financial Informaiton — Indebtedness" above, and apart from normal trade payables and intra-group liabilities, our Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank overdrafts and loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities outstanding at [31 July] 2009.

[The Directors confirm that, up to the the Latest Practicable Date, there have been no material change in our Group's indebtedness and contingent liability since [31 July] 2009.]

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DIVIDEND POLICY

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

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

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

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

RELATED PARTY TRANSACTIONS

Our Group entered into certain related party transactions during the three years ended 31 December 2008 and the three months ended 31 March 2009, details of which are set out in the accountants' report set out in Appendix I to this document. During the Track Record Period, our Group provided management services and office support services such as human resources management, accounting and general administrative services to Guangzhou Zhongde and Shanghai Senyin for the sake of cost saving as they were both controlled by Mr. Shao. Subsequent to the disposal of Mr Shao's interest in Guangzhou Zhongde, our Group had ceased to provide its management and office support services to Guangzhou Zhongde since end of July 2009.

DISTRIBUTABLE RESERVE

Our Company was incorporated on 8 March 2007. As at 31 March 2009, there was no reserve available for distribution to the Shareholders.

PROPERTY INTEREST

As at the Latest Practicable Date, our Group owned one property (two units) in the PRC for office use and leased 19 properties located in Hong Kong and PRC for office, staff dormitory, retail shop, studio, car parking space and warehouse uses. For more details of our leased properties, please refer to the valuation report as set out in Appendix III to this Document.

The table below shows the reconciliation of property interests of our Group from our audited combined financial statements as at 31 March 2009 to the unaudited net asset value of the property interests of our Group as at 30 June 2009:

	Land and buildings held for own use
	RMB'000
Net book value as at 31 March 2009	38,124
Movement for the period from 1 April 2009 to 30 June 2009	
Depreciation	(482)
Net book value as at 30 June 2009	37,642
Valuation plus	7,558
Valuation as at 30 June 2009 per valuation report set out in Appendix III to this Document	45,200

NO ADVERSE MATERIAL CHANGE

[Our Directors confirm that since 31 March 2009 (being the date to which the latest audited combined financial information of our Group was made up), there has been no material adverse change in the financial or trading position or prospects of our Group.]