Modern Media Holdings Limited Annual Report 2010

現代傳播控股有限公司2010年年報

Stock Code:72

PHOTOGRAPHY BY PENGYANGJUN

Peng Yangjun is a photographer of Modern Media Group, undertaking creative editor of The Outlook Magazine at present. This Group's report starts from Mt. Kunlun, a very long and grand mountain. Peng was after a Taoist priest, who was a hermit of Yeniu Gutter, Mt. Kunlun, and the herdsmen lived in the sparely populated. His works are so spontaneous and sincere, full of reverence to nature and respect to life.

彭楊軍攝影作品

彭楊軍，攝影師，曾任意大利《COLORS》雜誌創意總監。現供職於現代傳播屬下雜誌《新視線》任創意總監。在2009年年底，攝影師與記者追尋了一個隱在崑崙山野牛溝裏面的道士以及一些生存在這處人煙稀少下的牧民。攝影自然而真摯，充滿對自然的敬畏感與對生命的尊重。

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PHOTO : WANG WUSHENG, LIFE MAGAZINE,2009 摄影: 汪芜生 《生活月刊》 2009年

Company Vision 公司遠景

TO BE ONE OF THE LEADING
GLOBAL MEDIA ENTERPRISES
CREATING SUSTAINABLE VALUE FOR SHAREHOLDERS

成爲全球領先的媒體企業之一
爲股東創造可持續的價值

PHOTO PROVIDED: GETTY 图片提供: GETTY

Company Position 公司定位

iWeekly
for iPhone & iPad

TV Modern

A LEADING INTEGRATED MEDIA ENTERPRISE OWNING A MULTIMEDIA PLATFORM COMPOSED WITH ESTABLISHED MAGAZINE PORTFOLIO, DIGITAL MEDIA AND TV MEDIA

一個領先的綜合性媒體企業
擁有完整的雜誌刊物組合、數字化媒體、電視媒體等多媒體平台


PHOTO : DODO JINMIN, LIFE MAGAZINE,2007 摄影：金旻《生活月刊》2007年

Company Motivity 公司原動力

**PRODUCES HIGH QUALITY CONTENTS,
CAPTURES THE CHINESE ELITES AND PROVIDES AN
ONE-STOP MARKETING SOLUTION FOR
TOP INTERNATIONAL AND NATIONAL BRANDS**

爲中國精英階層製作高質量的內容
爲一線國際和本土品牌提供一站式的市場解決方案

Milestones (Major Awards and Recognitions) 大事纪 (主要獎項及嘉許)

2010
Magazine
雜誌

The Outlook Magazine
"Feature Photography" by SOPA, 2010

新視線
2010年獲亞洲出版人協會頒發
"Feature Photography"

Life Magazine
"Magazine Design" by SOPA, 2010

生活月刊
2010年獲亞洲出版人協會頒發
"Magazine Design"

Life Magazine
"Special Coverage" by SOPA, 2010

生活月刊
2010年獲亞洲出版人協會頒發
"Special Coverage"

Modern Weekly
Honored with 2001-2010 China Newspaper (Weekly) Leading Brand on 8 January 2011, recognized jointly by Media Magazine, School of Journalism and Communication of Peking University, School of Journalism and Communication of Tsinghua University, School of Journalism of Renmin University of China, and School of Media Management of Communication University of China.

周末畫報
2011年1月8日于2010中國傳媒年會中獲傳媒雜誌、北京大學新聞與傳播學院、清華大學新聞與傳播學院、中國人民大學新聞學院及中國傳媒大學媒體學院聯合頒發"2001～2010中國報業（周報）領軍品牌"榮譽

U+
(Up) Honored with 2010 Top 10 Female Favorite Weekly Magazine, recognized by Brand China Industry Union.

(Down) Honored with 2010 The Most Potential China Media on 8 January 2011, recognized jointly by Media Magazine, School of Journalism and Communication of Peking University, School of Journalism and Communication of Tsinghua University, School of Journalism of Renmin University of China, and School of Media Management of Communication

Personal
個人

Mr. Thomas Shao
Honored with 2001-2010 China Media Pioneer on 8 January 2011, recognized jointly by Media Magazine, School of Journalism and Communication of Peking University, School of Journalism and Communication of Tsinghua University, School of Journalism of Renmin University of China, and School of Media Management of Communication University of China.

邵忠
2011年1月8日于2010中國傳媒年會中獲傳媒雜誌、北京大學新聞與傳播學院、清華大學新聞與傳播學院、中國人民大學新聞學院及中國傳媒大學媒體學院聯合頒發"2001～2010中國傳媒領軍人物"榮譽。

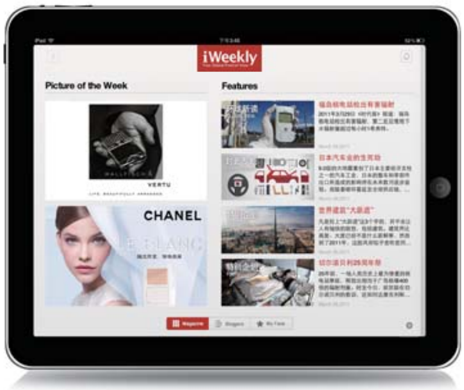
University of China.

優家畫報
（上）《優家畫報》獲品牌中國產業聯盟頒發的"2010最受女性喜愛的十大品牌周刊"
（下）2011年1月8日于2010中國傳媒年會中獲傳媒雜誌、北京大學新聞與傳播學院、清華大學新聞與傳播學院、中國人民大學新聞學院及中國傳媒大學媒體學院聯合頒發"2010中國最具成長性媒體"稱號

Corporate Development
企業發展

TURNING POINT . IMAGINE 2011

轉折點・想象 2011
《周末畫報 · 紐約時報》
特別合作巨力呈獻



iWeekly
for iPhone & iPad

iWEEKLY
The Most influencial magazine iOS app in China with over 2 million readers.

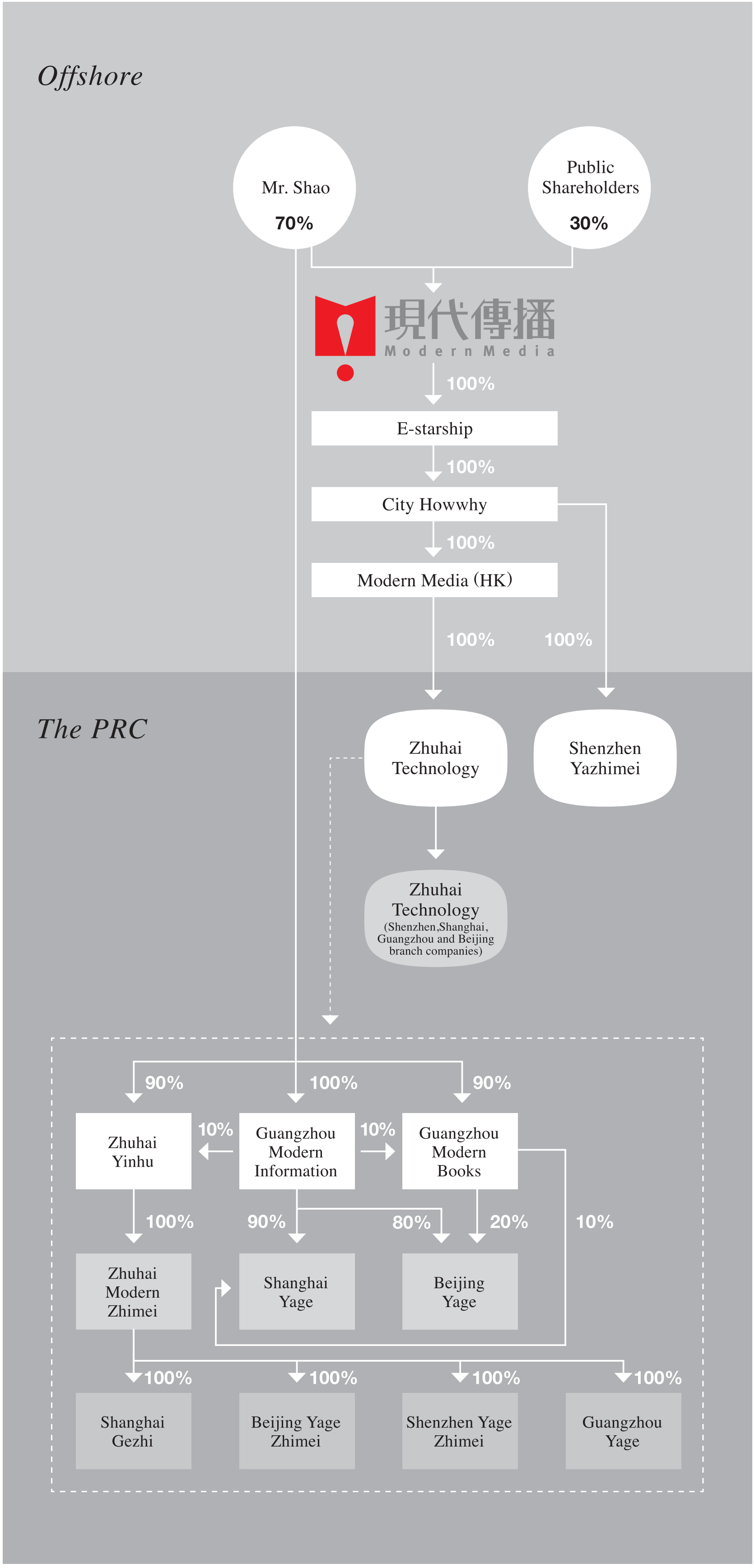
iWEEKLY
全球最具影響力的中文媒體app，拥有超過200万精英讀者。

Modern TV

Our own TV studio has been set up in Shanghai at the end of 2010, with the recruitment of a professional production team. TV programs production has begun in 2011 January. They are planned to broadcasted from mid-2011 onwards, through mainland Chinese TV channels and video websites. The tasteful TV shows, targeting at the affluent households in major Chinese cities, feature topics from entertainment, fashion to lifestyles.

現代電視
2010年底在上海建立自設的影視制作中心及組織專業制作團隊，2011年1月正式啓動多個電視節目的制作，計劃於2011年中開始在中國大陸地區的電視台及視頻網站播放。以高品位的電視節目，涵蓋娛樂、時尚及生活消費等多方面主題，瞄准中國主要城市的中高收入家庭。

Corporate Structure



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Shao Zhong *(Chairman)*

Mr. Wong Shing Fat

Mr. Li Jian

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

Independent Non-executive Directors

Mr. Jiang Nanchun

Mr. Wang Shi

Mr. Au-Yeung Kwong Wah

AUDIT COMMITTEE

Mr. Au-Yeung Kwong Wah *(Chairman)*,

Mr. Jiang Nanchun and Mr. Wang Shi

REMUNERATION COMMITTEE

Mr. Wong Shing Fat *(Chairman)*,

Mr. Jiang Nanchun and Mr. Au-Yeung Kwong Wah

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

COMPLIANCE ADVISER

ICBC International Capital Limited

Level 18, Three Pacific Place

1 Queen's Road East

Hong Kong

AUDITORS

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

LEGAL ADVISERS AS TO HONG KONG LAW

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1101-03, 11/F, Fortis Centre
1063 King's Road, Quarry Bay
Hong Kong

PRINCIPAL BANKERS IN HONG KONG

Hang Seng Bank Limited
Nanyang Commercial Bank Limited
Wing Lung Bank Limited

PRINCIPAL BANKERS IN THE PRC

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

REGISTERED OFFICE

Scotia Centre
4th Floor, P.O. Box 2804
George Town
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

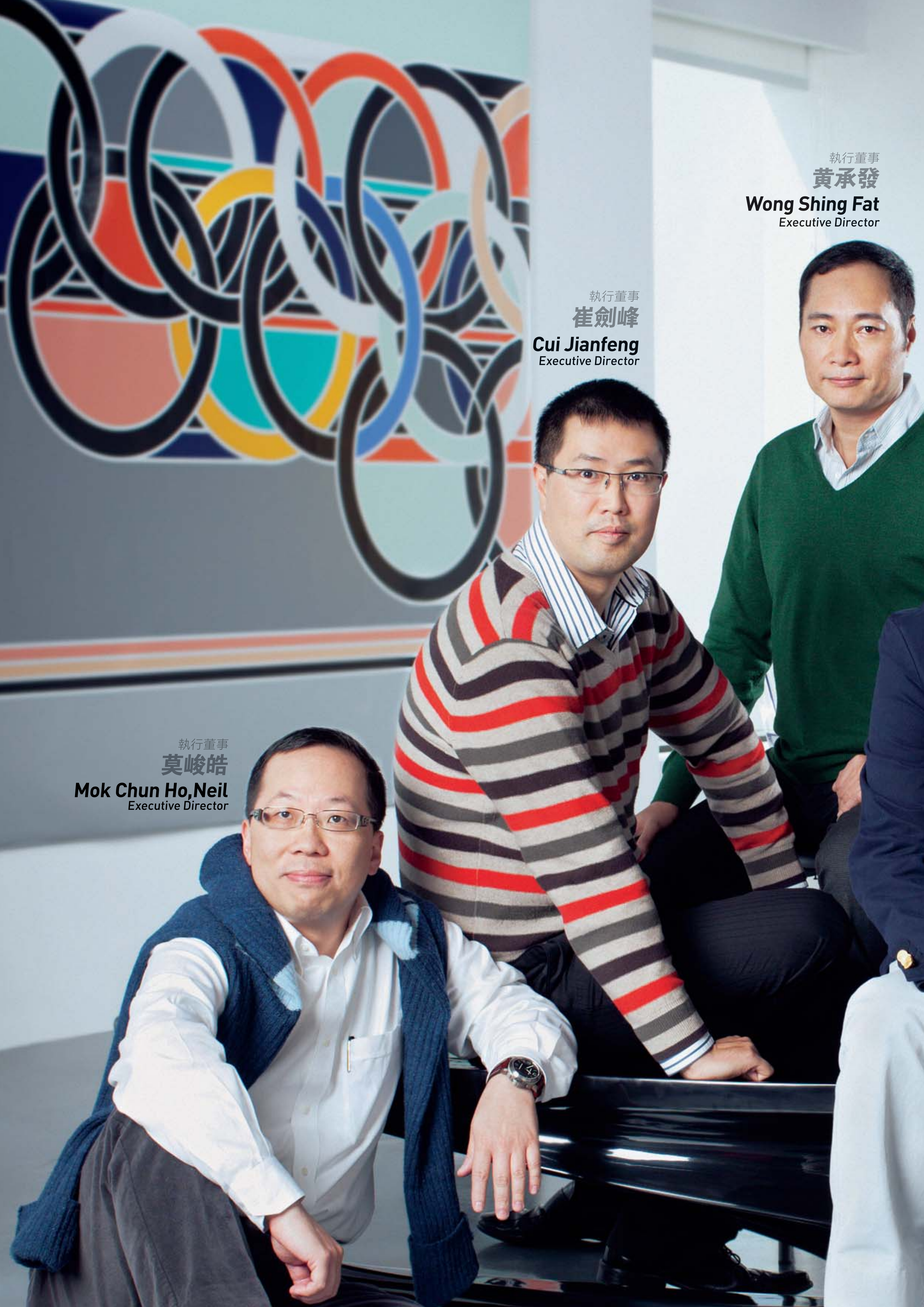
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

Stock code: 72

WEBSITE

www.modernmedia.com.cn



執行董事
黄承發
Wong Shing Fat
Executive Director

執行董事
崔劍峰
Cui Jianfeng
Executive Director

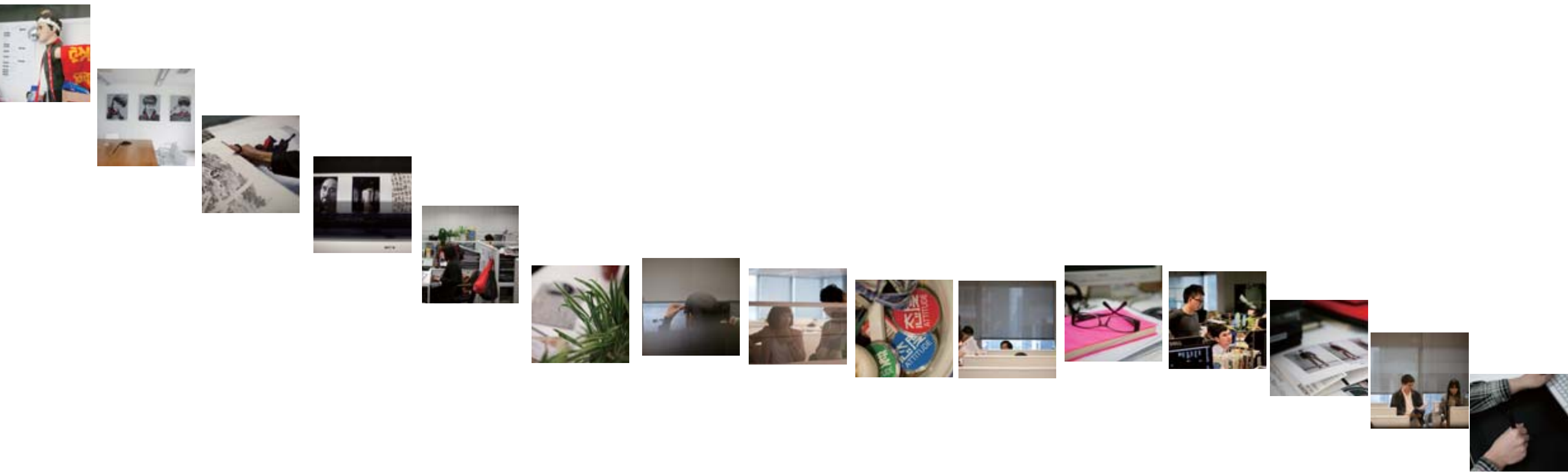
執行董事
莫峻皓
Mok Chun Ho,Neil
Executive Director

主席
邵忠
Shao Zhong
Chairman

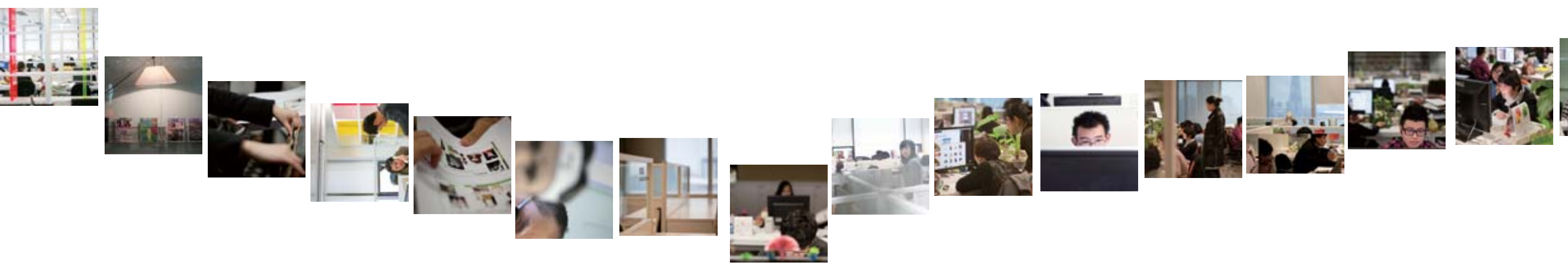
執行董事
厲劍
LI Jian
Executive Director


HONG KON
GUAN

SHANGHAI

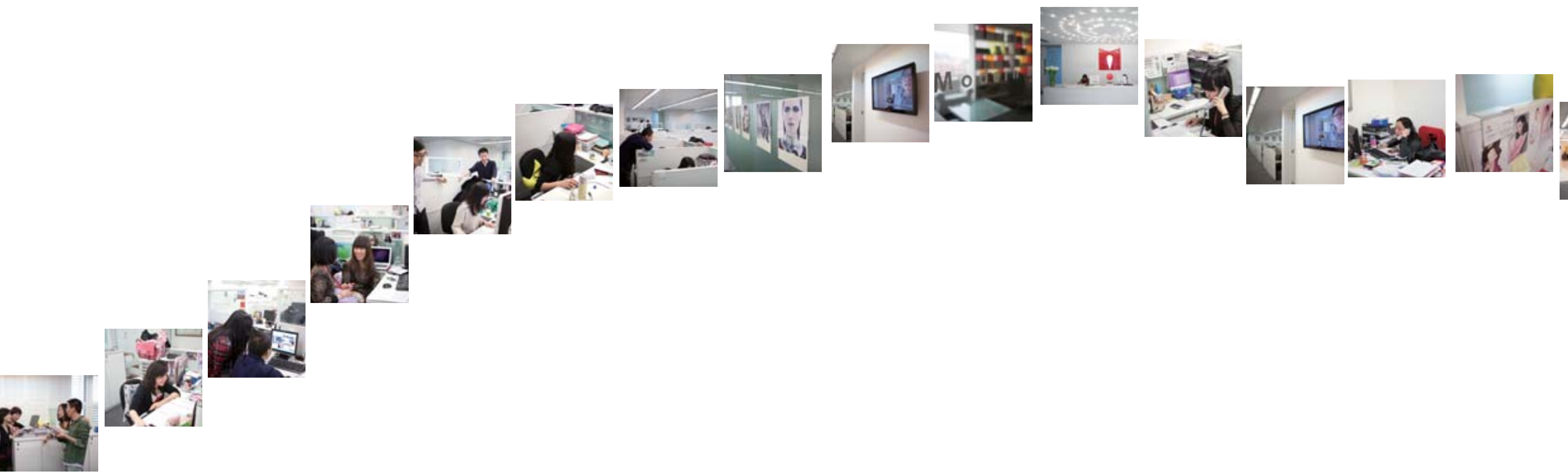


BEIJING



HEN
HANGZHOU


NANJIN
CHENGDU
DA



HARBIN

CHAIRMAN'S STATEMENT

主席報告

主席
邵忠
Shao Zhong
Chairman




Chairman's Statement

On behalf of the Board of Directors (the "Board") of Modern Media Holdings Limited ("Modern Media" or the "Company"), it is my great pleasure to announce the results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

2010 was a year full of challenges and opportunities. Opportunities emerged from the global economic crisis as the European credit crunch posed uncertainties to the global economic recovery. The Central Government, in response, launched a series of proactive measures with a view to boosting the domestic demand and stimulating economic activities. As a result, the economy of Mainland China performed favorably and saw strong growth again. The rise in gross national product and disposable income, as well as the quicker pace of urbanization, also drove up the lifestyle consumption in the major cities. Meanwhile, the Shanghai World Expo and the Guangzhou Asian Games, which attracted a lot of attention, were held during the year and created a favorable market environment for the media industry in China. The advertising market capitalized on the unprecedented enormous opportunities to grow rapidly.

During the year under review, the Group adhered to the philosophy of "Spreading the word about modern China and promoting her image in the international arena" whereby the Group kept on unleashing its boundless creativity. The Group's business in mainland China and Hong Kong recorded satisfactory results through a diversified media business development strategy. The Group's turnover significantly increased to approximately RMB456,255,000 (2009: approximately RMB333,156,000). Profit attributable to equity shareholders of the Company significantly increased to approximately RMB52,752,000 (2009: approximately RMB31,186,000). Earnings per share amounted to RMB0.13 (2009: RMB0.09).

Modern Media is one of the few media enterprises in China which publishes two best-selling weekly magazines. *Modern Weekly*, the flagship magazine as the major source of revenue of the Group, continues to command its leading position firmly in the market of comprehensive weekly magazines in China with outstanding performance. *U+ Weekly*, which was published since late 2008, has become the lifestyle weekly magazine for female readers with the highest sales volume in China in just two years. Given its significant market position, it successfully lures numerous advertising placements from advertisers in the categories of female cosmetic products, fashion, jewelry, etc. and becomes one of the key drivers for the sustainable business growth of the Group.

On the basis of consolidating the core magazine business, the Group also upgrades and enriches its product portfolio with other magazine products. The Group launches numerous monthly magazines such as *The Outlook Magazine, Intersection, LOHAS, Life Magazine*, and *Leap* in China and *City Magazine* in Hong Kong to cater for the demand arising from market segmentation of various elites and further expand its sources of advertising income.

Adhering to the objective the of "Observing modern China from a global perspective, influencing the international trend with Chinese originality", the Group continued to proactively concentrate on business development during the year. It launched the Chinese version of a renowned high end fashion magazine, namely *Numero* under the cooperation with a famous publisher in France, thus achieving a step closer to its long-term pursuit of internationalization of content.

The Group continued to increase its distribution network for its diversified magazine portfolio to further enlarge its readership and attract more new readers. Currently, the Group had established a network of more than 40,000 retail outlets in over 30 major cities throughout China. The extensive network captured a strong and solid advertising customer base for the Group. There were over 170 loyal customers which had close and loyal cooperation relationships with the Group for over 5 years, many of which were enterprises with famous high end brands. During the year, while consolidating its business in tier-1 cities, the Group accelerated its penetration into tier-2 cities to seize the opportunities arising from the significant growth in local brand over the past years. The Group launched local weekly magazines in Hangzhou, Chongqing and other cities to enter into the local advertising markets with greater potential for development.

As a leading media enterprise which closely monitored the media development trends, the Group proactively develops its multimedia platform in addition to the magazine business. Capitalizing on its strong market sense and innovative creativity, the Group's digital media business achieved admirable results during the year although it was still in an infant stage. In December 2010, the Group successfully acquired "*iWeekly*", which was the most popular downloaded Chinese electronic publication application on Apple's iPhone and iPad website. Over 2 million users have downloaded *"iWeekly"* up to the date of this report. Upon its successful acquisition, the Group made use of its abundant resources to commence the marketing of the online advertising sales of "*iWeekly*" and the advertising customers responded actively in a short period of time. The initial success of "*iWeekly*" marked the Group's initial success in multimedia business development and encouraged the Group to comprehensively develop into an "Innovative Media" with greater initiative.

In light of the potential of the advertising market of the TV media platform in China, the Group recognized TV media as our new growth momentum in future. During the year, the Group and the Hangzhou CRT (Cultural, Radio, and Television) Group ("Hangzhou CRT", the parent company of Hangzhou TV Station) became joint venture partners for joint development of TV media business. The Group aimed to increase its revenue from TV media in the future years to the extent that it would become a major source of revenue.

Looking forward to the coming year, the consumption market is increasingly booming and the consumption level and scope have greatly increased and expanded. The prospects of the medium-to-high end advertising market are brilliant. The Group will continue to use its diversified platform which combines the print media, TV media and digital media to strive for becoming the integrated media enterprise which provides "international", "lifestyle" and "high-end" media contents and services, thus satisfy the ever-changing demand of the emerging middle class in China.

In the era of the Internet, the spread of information is astonishing in terms of speed, power and scope. As a result, the Company will continue to closely monitor the media development trends. It will proactively develop the digital publishing business by launching mobile publications and enriching their contents and modes, setting up elite community website and producing and providing lifestyle video programs, thus further enlarging its user groups and creating new business growth for the Group.

We will continue to strengthen the marketing efforts for the print media business and increase its existing distribution channels to consolidate the core source of income of the Group. The Group will further expand into the advertising market of the tier-2 cities with growth potential. The Group will not only maintain the leading market position of *Modern Weekly* and *U+ Weekly* but also develop more quality local publications to intensify the influence of the Group nationwide and enhance its competitiveness.

Adhering to its philosophy of "searching for a modern China and spreading the global perspective", the Group is planning to publish more internationally renowned magazines in Chinese. In the first 3 months of 2011, the Group has cooperated with a British reputable publisher and *The New York Times* of US to publish *Intersection* and *Turning Points 2011* respectively in Chinese. In the second half of the year, the Group will launch the simplified Chinese version of *Bloomberg Businessweek*, which will be jointly published with *Bloomberg L.P*. The launch of the high end quality magazines mentioned above will further enhance the reputation and influence of the brands of the Group and will bring about advertising opportunities for the Group.

In the first year of "Twelfth Five Year Plan' in China, we are confident that the Chinese economy will keep on growing steadily. The Chinese government will continue to stimulate domestic demand to support a strong economic growth. The Group will continue to be prudent and optimistic and adopt a business strategy for sustainable development. It will seize the opportunities arising from the steady economic growth in China and implement the development strategy of the Group in an orderly manner.

With the concerted efforts of all employees as well as the long-term support from our clients, shareholders and business partners, the Group will flexibly cope with changes in the business environment to capture new opportunities, and achieve steady progress. Looking forward, Modern Media will endeavor to becoming the most respectable and influential integrated media group in China to maximize its value for shareholders with every effort.

Shao Zhong
Chairman

Management Discussion and Analysis

RESULT SUMMARY

2010 has been a year of challenges and opportunities. With the global recession receding and the People's Republic of China ("PRC") economy persistently recovering in 2010, the Group delivered satisfactory results in both turnover and operating profit for the year as a whole. For the year 2010, the Group's turnover amounted to approximately RMB456.3 million, which represented a sharp increase of 36.9% compared with that of year 2009 and outperformed the market average growth of 19.0% according to survey figures of CVSC-TNS Market Research Company Ltd. ("CTR") for the magazine sector. The performance of the Group's two flagship magazines, the "Modern Weekly" and "U+ Weekly" largely exceeded the industry average and occupied leading positions in both advertising revenue and circulation statistics. With the combined effects of strong revenue growth from both weekly and monthly magazines and effective cost control, profit margins of the Group had increased significantly in 2010. The Group recorded a net profit amounted to approximately RMB52.8 million for the year 2010, representing a significant growth of 69.2% as compared with that of year 2009.

(A) BUSINESS REVIEW

(i) Advertising

The PRC

In 2010, the PRC economy persisted with a recovery in general owing to the proactive policies adopted by the Chinese government and the strength of domestic consumption. In addition, major events including the Shanghai World Expo and the Guangzhou Asian Games further created business opportunities for the advertising industry in the PRC. Both ZenithOptimedia and CTR estimated that the advertising market fared robustly in 2010, having regained its momentum to record about 12.0% year-on-year increase when compared with that of year 2009. During the year 2010, the Group had a portfolio of two weekly and six monthly magazines in the PRC. The turnover from the operation in the PRC for the year was approximately RMB431.5 million (2009: RMB317.8 million), representing a sharp increase of approximately 35.8% on a yearly basis.

The performance of our flagship weekly magazine "Modern Weekly" stood out in 2010. It kept its strong momentum in growth during the year and achieved excellent results. According to the surveys by Admango Limited, "Modern Weekly" continuously ranked No. 1 in advertising revenue among all weekly magazines in the PRC. In the year 2010, "Modern Weekly" enjoyed a buoyant advertising environment and saw a 28.1% increase in its advertising revenue on a year-on-year basis. The solid growth in revenue, coupled with sound control on the printing and other operating costs, led to a remarkable increase in operating profits for "Modern Weekly". "Modern Weekly" continued to be the largest contributor to the Group's profits in 2010.

"U+ Weekly", with an entrenched market leading position as a lifestyle weekly magazine for rising middle-class feminine readers, was well placed to reap profit from the positive market conditions. Its advertising revenue in 2010 increased by 104.2% as compared with that of 2009. During 2010, "U+ Weekly" launched a series of marketing campaigns covering ten tier-1 and tier-2 cities in the PRC. Such marketing events attracted widespread attention from readers and further increased its market influence. Seven quarters in a row since its launch in December 2008, "U+ Weekly" ranked No. 1 in terms of circulation volume among all women lifestyle magazines in the PRC, according to Beijing Kai Yuan Circulation Research Company. Moreover, it had raised its cover price from RMB3 to RMB5 since November 2010 without any adverse impact on circulation volume. This is an encouraging sign, which shows that "U+ Weekly" has gained sustainable and steady support from its readers.

In September 2010, the Group launched the Chinese edition of "Numero", which was a French renowned high-end fashion magazine. "Numero" received positive responses from both advertisers and readers and its performances in advertising and circulation were in line with the expectations of the management.

Aside from the Chinese edition of "Numero", among other monthly magazines operated by the Group in the PRC, the advertising revenues had been greatly increased when compared with that of last year. Such portfolio of magazines is important for the Group's marketing strategy for attracting readers and advertisers from different segments.

Hong Kong

During the year 2010, the Group publishes a monthly magazine, "City Magazine" and provides advertising agency services for the PRC magazines operated by the Group in Hong Kong, which accounted for approximately 4.4% of the Group's total advertising revenue (2009: 6.3%). The advertising revenue of the Hong Kong operations in 2010 improved significantly as a result of the economic revival in Hong Kong which in turn was a result from the recovery of worldwide economy and in particular, the PRC. In spite of the increase in turnover, the Group has also adopted a series of cost saving procedures including the restructuring of workflow and the relocation of office in order to achieve a better financial results.

(ii) Circulation

Owing to the expansion of magazine distribution networks in more and more tier-2 cities in the PRC, the circulation revenue in 2010 increased by approximately 29.2% compared to that in 2009. Such strategy further consolidated the market influence of the Group's magazines and aroused the interest of local brand advertisers.

(iii) Local Weekly Magazines

Last year, the Group cooperated with some local partners to launch two local weekly magazines in Hangzhou and Chongqing. Although the local weekly magazines contributed limited turnover to the Group's entire magazine portfolio, they are strategically important to the geographic expansion of business of the Group. Both investment projects recorded steady growth throughout 2010. The performance of these local weekly magazines was in line with the original investment objectives and plans.

(iv) Building 4Cs Competitive Edges

During 2010, besides pursuing outstanding growth in financial figures, the Group spent great efforts in sharpening its competitive edges in 4Cs, namely Contents, Channels, Customers (audience) and Clients.

In terms of Contents, the Group introduced a series of international cooperation titles from 2010, namely "Numero" (France), "Intersection" (UK), and The New York Times "Turning Point" (USA). These international cooperation projects indicated that the quality of the Group's publications was recognized by internationally leading publishers and the standard of its publications was arisen. Meanwhile, leading international magazine titles are broadly accepted by brand marketers in placing advertisements. Therefore, international cooperation will become a key strategy for the Group to grow its print-media business in the coming years.

In terms of Channels, the Group pursued cross-media integration actively. During the year, the Group acquired an Apple iOS-formatted iPhone & iPad application, namely "iWeekly". This is a free of charge application to keep iPhone & iPad user up-to-date with the contents and information of the portfolio of the Group's magazines. Since the acquisition, "iWeekly" continues to attract new users rapidly. As at the date of this report, the application has attracted over 2 million subscribers, and been ranked No. 1 iPhone and iPad Chinese media application according to Apple's statistics. After such acquisition, the Group started to promote on-line advertising for "iWeekly", and received positive responses from advertisers. On the other hand, subsequent to the year end, the Group completed the establishment of its first TV production studio in Shanghai. The TV production studio is expected to play an important role in converting the Group's rich print-media contents into video format. The Group entered into a memorandum of understanding with Hangzhou TV Station to broadcast its lifestyle TV program commencing from the first half of 2011.

Finally, progress in terms of Customers (audience) and Clients have been largely reflected in the Group's continuously growing circulation volume and advertising revenue figures. Over the years, the Group has accumulated a large number of loyal audiences and advertising clients, which forms critical foundations to its business.

(B) BUSINESS OUTLOOK

The Group is generally optimistic for the operating results in the year of 2011. According to a recent market forecast provided by ZenithOptimedia, it is estimated that the total advertisement spending in China will grow by 14.8% and 17.5% in 2011 and 2012 respectively as compared to 2010. We believe the trend of rising middle class and consumerism in China will drive more and more of our customers to showcase their brands and products through our cross-media platform. The prosperous Chinese market provides solid support to the "Customers" and "Clients" ends of our business. We are confident that our targeted audience base will grow rapidly along with the rise in population of middle class in China. Meanwhile, strong consumer demand will drive up the advertising spending of our clients. Leveraging on the good business environment, the Group is aiming to implement the following strategies in 2011 in order to further sharpen its competitive edges in "Contents" and "Channels".

(i) Launching simplified Chinese edition of "Bloomberg Businessweek"

Print-media will remain the Group's major source of income in the foreseeable future. The Group will continue to augment its publication portfolio diversity through new licensing and cooperation deals with renowned international magazine titles. Followed by series of international cooperation projects in 2010, the Group had announced a new cooperation with Bloomberg L.P. to publish the simplified Chinese edition of "Bloomberg Businessweek" in 2011. The simplified Chinese edition of "Bloomberg Businessweek" will become the Group's third weekly magazine, after "Modern Weekly" and "U+ Weekly". This new title will feature contents from the global issues of "Bloomberg Businessweek", as well as local business and financial contents produced by the Group. We are confident that it will not only further strengthen the Group's obvious leading position in weekly magazine sector of the PRC and become a new growth engine of the Group's print-media business, but also help to attract advertising revenues from the financial sector and new audiences. Based on the publication platform of the simplified Chinese edition of "Bloomberg Businessweek", the Group might produce more business and finance contents at various media formats in the future, and develop business and finance as another major content production category of the Group, followed by the category of lifestyle.

(ii) **Securing new revenue stream from cross-media business**

Cross-media is the major trend in the media industry. With a rich content library, the Group is able to leverage on its existing print media business to expand into the TV and digital media business with limited additional cost.

TV Media

We believe that without TV media business, the Group cannot build a competent and diversified cross-media platform. Further, TV media will continue to dominate the advertising market in the near future. Therefore, the Group is determined to launch the "Modern TV", which is a national lifestyle TV network, in the coming years. Since the beginning of 2011, the Group has recruited a crew of TV production talents from Taiwan as the core team to form its TV division. It is forecasted that the first batch of TV programs will be finished in April 2011, and be broadcasted in Hangzhou by the mid of 2011. We are still in the discussion for cooperation with more local channels in different cities in order to expand the coverage on our target audiences. The Group is confident that the TV business will bring in more revenue from both advertising and product placements.

iWeekly

In 2011, we will continue to promote the "iWeekly" iPhone and iPad application and attract new users, in order to sustain its leading position. We firmly believe that "iWeekly" will generate additional advertising revenue and profit to the Group in 2011. Meanwhile, we will continue to add new features and functions to the application, increasing its interaction with users and value propositions to users. We may develop new business models through the introduction of new functions to the application. Furthermore, we will closely monitor the technology trend in mobile market. We may launch "iWeekly" in other mobile platforms, such as Android, Windows Phone etc in the future.

Internet

The Group had launched a lifestyle information website - "Uplus.net" in 2010, as an interactive tool for "U+ Weekly" magazine. Looking forward, we are aiming to develop the said website into a lifestyle community hub for metropolitan elites through potential cooperation with or acquisition of relevant websites in the market. In the long run, the Group strategizes the said website as a lifestyle on-line community for metropolitan elites in China to socialize, with comprehensive information on consumption, guidance, information sharing, and e-commerce functions.

Although the earning contribution from the cross-media business is not expected to be significant in the near term, returns in long term will be material. The Directors believe that the abovementioned strategies can lead the Group towards its goal of becoming one of the most respectful and influential integrated media group creating sustainable value for our shareholders not only in China, but also in the region and beyond.

(iii) **Dividend**

Since the Group has to reserve adequate cash resources for the development of TV media and preparation for the launch of the Group's third weekly magazine, the simplified Chinese version of "Bloomberg Businessweek", the Directors do not recommend the payment of a final dividend for the year (2009: HK$Nil).

(C) LIQUIDITY AND FINANCIAL RESOURCES

Net cash flows

During the year, the Group had a net cash inflow from operating activities of approximately RMB34.0 million (2009: net outflow of RMB32.2 million), which was largely attributable to the increase in operating profits. The increase in operating profits was mainly resulted from remarkable operating performance of the Group's portfolio of magazines. On the other hand, the Group's cash outflow in investing activities amounted to RMB30.7 million (2009: RMB21.0 million) which was mainly attributable to (a) capital expenditures on leasehold improvements and fixed assets of the new office in Shanghai and Hong Kong, (b) acquisition of mobile magazine "iWeekly", details of acquisition are set out in note 31 to the financial statements and (c) investment in an associated company, Chongqing Yubao Culture Media Co., Ltd. of RMB4.1 million, details of investment are set out in note 16 to the financial statements. The Group's cash inflow from financing activities amounted to RMB20.0 million (2009: RMB73.9 million) which included (a) net proceeds from placing of shares to two investment funds of RMB18.7 million, (b) repayment of other loans of approximately RMB6.9 million and (c) net advance from bank loans of RMB5.3 million.

Amounts due from Guangzhou Zhongde

As at 31 December 2010, other receivables included the amounts of RMB13.4 million (2009: RMB17.2 million) due from Guangzhou Zhongde Consultation Company Limited ("Guangzhou Zhongde"). Guangzhou Zhongde was previously owned by Mr. Shao Zhong, the executive director and controlling shareholder of the Company and subsequently disposed to an independent third party in May 2009. The amounts due from Guangzhou Zhongde were, as a result, reclassified to other receivables at 31 December 2009. It was mutually agreed between the Group and Guangzhou Zhongde that the amounts will be settled by instalments starting from January 2010. The Group received the settlement of receivables of RMB3.8 million during the year of 2010.

Borrowings and gearing

As at 31 December 2010, the Group's outstanding borrowings was approximately RMB23.0 million. The total borrowings comprised secured bank loans of approximately RMB16.2 million and other unsecured loan of approximately RMB6.8 million. The gearing ratio as at 31 December 2010 was 5.5% (31 December 2009: 7.5%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

As at 31 December 2010, the total debts of the Group were repayable as follows:

	2010 RMB'000	2009 RMB'000
Within 1 year or on demand	8,301	8,315
After 1 year but within 2 years	1,638	1,544
After 2 years but within 5 years	5,630	5,285
After 5 years	7,381	9,350
	14,649	16,179
	22,950	24,494

SHARE CAPITAL STRUCTURE

As at 31 December 2010, 417,000,000 shares at the nominal value of HK$0.01 each were issued. Details of the movement of share capital of the Company are set out in note 26 to the consolidated financial statements of this Annual Report.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Save as the corporate guarantee given to banks and our major printing supplier to secure the banking facilities and printing credit line, as at 31 December 2010, the Group did not have any material contingent liabilities or guarantees other than those disclosed below.

As at 31 December 2010, the Group's bank loans of RMB16.2 million were secured by mortgages over the Group's properties in Beijing, the PRC and guarantees from Shanghai Gezhi, a subsidiary of the Group.

As at 31 December 2010, the Group's printing credit line in an amount of approximately HK$20 million was secured by corporate guarantee given by the Company.

FOREIGN EXCHANGE RISKS

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant. The Group did not enter into any foreign exchange hedging instruments during the year 2010.

NET PROCEEDS FROM PLACING OF SHARES

On 17 September 2010, the Company entered into two conditional subscription agreements ("Subscription Agreements") with Harmony Master Fund ("HM Fund") and Value Partners Limited ("VPL") respectively, pursuant to which the Company has agreed to issue and (i) HM Fund has agreed to subscribe for 10,000,000 ordinary shares of HK$0.01 each in the share capital of the Company (the "Shares") , and (ii) VPL has agreed to procure VPL Funds (by itself or through nominee(s)) to subscribe for 7,000,000 new Shares, both at a price ("Subscription Price") of HK$1.30 per Share (the net price being HK$1.28 per Share). The Subscription Price represents (i) a premium of approximately 4.84% to the closing price of HK$1.24 per Share as quoted on the Stock Exchange on 17 September 2010, being the date of the Subscription Agreements. By entering into Subscription Agreements, the Company was able to raise capital to further strengthen its capital base and financial position. The gross proceeds and net proceeds from the Subscription Agreements were approximately HK$22.10 million and HK$21.80 million respectively. The net proceeds from the Subscriptions Shares was used as general working capital of the Group.

EMPLOYEES AND SHARE AWARD PLAN

As at 31 December 2010, the Group had a total of 801 staff (2009: 722 staff), total staff costs (including Directors' remuneration) were approximately RMB133.9 million (2009: RMB97.5 million). The emoluments of the Directors and senior management are reviewed by the Remuneration Committee. The increase in head count was due to the launch of "Numero", acquisition of "iWeekly" and the preparation for the expected launch of TV programs in 2011.

To recognize and reward the contribution of eligible employees for their contribution to the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company approved an Employee Share Award Plan (the "Plan") on 3 December 2009. The Plan has become effective on 7 December 2009. The Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year 2010, the Company did not contribute any amount in the Plan and there was a carried forward balance to acquire shares of the Company in the share pool which have not yet been vested and such amount was recorded in the Company's consolidated statement of financial position. Details of the plan are set out in note 26(b) to the consolidated financial statements of this Annual Report.

Corporate Governance Report

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

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules on the Stock Exchange. The Group also adheres to the recommended best practices of the CG Code insofar as they are relevant and practicable.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors who have confirmed that, during the year, they have complied with the required standard set out in the Model Code.

Set out below are our current framework of governance and explanations about how the provisions of the CG Code have been applied.

THE BOARD OF DIRECTORS

The Board recognizes its responsibility to act in the interests of the Company and its shareholders as a whole. Currently, the Board has eight Directors: five Executive Director and three Independent Non-executive Directors. Independent Non-executive Directors represent more than one-third of the Board.

At present, the Directors of the Company are:

Executive Directors

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

Independent Non-executive Directors
Mr. Jiang Nanchun
Mr. Wang Shi
Mr. Au-Yeung Kwong Wah

The biographies of all the Directors, including their relationships, are set out on pages 41 to 42 of this Annual Report. The Board is chaired by the Chairman, Mr. Shao Zhong. Mr. Wong Shing Fat, Executive Director and Chief Executive Officer, oversees the management of the Group's business with the assistance of the Group's senior management team. Each Director brings a wide range and years of business experience to the Board. The Directors' combined knowledge, expertise and experience are extremely valuable in overseeing the Group's business. The Board sets the strategic direction and oversees the performance of the Group's business and management. The following key matters must be approved by the Board before decisions are made on behalf of the Company:

- Strategic direction
- Budgets
- Interim and annual financial results
- Interim and annual financial reports

- Significant investments
- Major acquisitions and disposals
- Major financings, borrowings and guarantees
- Material contracts
- Risk management

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

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

Board Proceedings

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

	Meetings attended	**Meetings held during 2010**
Mr. Shao Zhong	7	9
Mr. Wong Shing Fat	9	9
Mr. Li Jian	6	9
Mr. Mok Chun Ho, Neil	8	9
Mr. Cui Jianfeng	8	9
Mr. Wang Shi	3	9
Mr. Jiang Nanchun	1	9
Mr. Au-Yeung Kwong Wah	5	9

Note 1: On 3 December 2009, the Board resolved that, for transactions falling under Chapter 14 of the Listing Rules but with the amount involved less than HK$ 20 million and that all relevant percentage ratios not exceeding 5%, the same may be approved by any two Executive Directors, provided that within 5 working days from the date of signing of the agreement(s) for the transaction, a copy of such agreement(s) must be circulated to all Directors (including Independent Non-executive Directors). Out of the 9 Board meetings held, 3 falls within such category of meeting.

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

Appointment, Re-election and Removal of Directors

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

Directors' Remuneration

The Directors' fees and all other reimbursements and emoluments paid or payable to the Directors during the year are set out, on an individual and named basis, in note 9 to the financial statements of this Annual Report on page 84. The remuneration policy of the Group is set out on page 52 of this Annual Report.

Independence of Independent Non-executive Directors

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

Other matters relating to the Board

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

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

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

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

  (ii) Major accounting estimates and judgmental areas;

  (iii) Significant adjustments following the audit;

  (iv) The going concern assumption;

  (v) Compliance with accounting standards; and

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

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

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

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

	Meetings attended	**Meetings held during 2010**
Mr. Au-Yeung Kwong Wah	2	2
Mr. Wang Shi	1	2
Mr. Jiang Nanchun	1	2

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

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

(b) Review of the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) Discuss with the external auditors regarding the nature and scope of the 2010 audit;

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

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

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

The Board has not taken any view that is different from that of the Audit Committee nor rejected any recommendation presented by the Audit Committee in 2010.

REMUNERATION COMMITTEE

The Company has established a remuneration committee ("Remuneration Committee") in 2009 with written terms of reference. The Remuneration Committee currently comprises an Executive Director, namely Mr. Wong Shing Fat (chairman of the Remuneration Committee), and two Independent Non-executive Directors, namely Mr. Au-Yeung Kwong Wah and Mr. Jiang Nanchun. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of the Directors and determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors. During the year, the Remuneration Committee assessed performance and reviewed the terms and structure of remunerations for the Directors.

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

	Meetings attended	Meetings held during 2010
Mr. Wong Shing Fat	2	2
Mr. Au-Yeung Kwong Wah	2	2
Mr. Jiang Nanchun	1	2

NOMINATION OF DIRECTORS

The Board is empowered under the Company's Article of Association to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

INTERNAL CONTROLS

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

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

EXTERNAL AUDITOR

KPMG was first appointed as the auditors of the Group in 2009. During the year 2010, KPMG provided the following audit and non-audit services to the Group:

	2010 RMB'000	2009 RMB'000
External audit	1,754	1,542
Reporting accountants	—	2,362
Tax services	—	366

KPMG will retire and offer themselves for re-appointment at the annual general meeting of the Company to be held in May 2011.

A statement by KPMG about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report section of this Annual Report on page 54.

SHAREHOLDER RELATIONS & SHAREHOLDERS' RIGHTS

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

The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. Shareholders have specific rights to convene extraordinary general meetings under the Company's Articles and Association A shareholder or shareholders holding not less than one-tenth of the Company's shares may require the Directors to convene an extraordinary general meeting of the Company by making such requisition in writing to the Directors or the Company Secretary. Up to the date of this Annual Report, no shareholder has requested the Company to convene an extraordinary general meeting.

The Company's next annual general meeting will be held on 18 May 2011 at Level 7, Kennedy Room, Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong.

Directors' Securities Transactions

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

Conclusion

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

Biographical Details of Directors and Senior Management

DIRECTORS, MANAGEMENT AND SENIOR STAFF

Mr. SHAO Zhong (邵忠), aged 50, the founder of our Group. Mr. Shao was initially appointed as a Director in March 2007, and was subsequently designated as chairman of the Board and executive Director in July 2009. Mr. Shao is responsible for the overall corporate strategies, policy-formulating and instilling corporate philosophy of our Group. Prior to founding our Group, Mr. Shao was formerly a PRC government official before 1989. Then, he also undertook senior positions in other publishing and media enterprises including a listed printing company in Hong Kong until 1999. Mr. Shao holds an EMBA degree from Tsinghua University of Beijing. His in-depth experience in the media and publication industries in the PRC earned him the nomination as one of Top 10 Media Leading Icon at China Media Forum in 2010.

Mr. WONG Shing Fat (黃承發), aged 52, the chief executive officer of our Group responsible for the corporate and business planning and development a well as the overall management and operation of our Group. Mr. Wong was appointed as the executive Director of our Group in July 2009. He joined our Group in January 2003 as a chief consultant and also assumed the role as the chief operation officer and was subsequently promoted as the chief executive officer of our Group in September 2006. Prior to joining our Group, Mr. Wong undertook senior positions in several international reputable advertising companies and was responsible for the media planning, overall operational management and business development in the greater China region. Mr. Wong has over 26 years of experience in media operation and management of the advertising and media industries. Mr. Wong was granted the "*SALUTE*" Media Award by the Association of Accredited Advertising Agencies of Hong Kong in 1996 in recognition of his professional and significant contribution to the advertising industry in Hong Kong.

Mr. LI Jian (厲劍), aged 42, the chief operation officer of our Group responsible for the formulation and execution of the advertising sales strategies as well as the publication management of our Group. Mr. Li was appointed as an executive Director of our Group in July 2009. He joined our Group in May 1999 and took up various senior positions in Shanghai and Beijing offices and he was subsequently promoted to be the chief operation officer of our Group in July 2006. Mr. Li obtained his MBA degree from Murdoch University in Australia in March 2000 and his bachelor's degree in Applied Mathematics from the Faculty of Applied Mathematics of Lanzhou University in China in June 1992. He has over 11 years of experience in the marketing industry.

Mr. MOK Chun Ho, Neil **(莫峻皓)**, aged 45, was appointed as an executive Director of our Group in July 2009. Mr. Mok joined our Group in March 2003 and is responsible for the general financial planning and management of our Group. He obtained his MBA degree from Charles Sturt University in Australia in November 2002 and the Diploma in Accountancy from the Lingnan College of Hong Kong (currently known as Lingnan University) in November 1989. Mr. Mok was admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants and the associate member of the Taxation Institute of Hong Kong in February 2010 and April 1999, respectively. Mr. Mok has almost 20 years of experience in finance and accounting management through his previous financial positions with several listed and private companies in Hong Kong.

Mr. CUI Jianfeng (崔劍鋒), aged 38, was appointed as the chief investment officer and executive Director of our Group in July 2009. Mr. Cui joined our Group in May 2008 and is responsible for the investment strategies and business management of our Group. Prior to joining our Group, he took up various senior positions in two reputable multinational companies. Mr. Cui's past working experience in multinational companies helps our Group in developing constructive investment and business finance systems. He obtained an MBA degree from the Deakin University in Australia in September 2003 and another MBA degree from the University of Western Ontario in Canada in October 2004 respectively and also the bachelor's degree of commerce (major in accountancy) from the University of Wollongong in Australia in October 1995. Mr. Cui is a member of CPA Australia. Mr. Cui has over 11 years of experience in finance and business management.

Independent non-executive Directors

Mr. WANG Shi（王石）, aged 59, was appointed as the independent non-executive Director in August 2009. Mr. Wang has almost 20 years of experience in real estate development in the PRC. Mr. Wang was the founder of China Vanke Co., Ltd. which was listed on the Shenzhen Stock Exchange starting from 1984. He acted as its general manager from 1988 to 1999, and he also acted as its chairman from1988 till now. Mr. Wang obtained his bachelor's degree in water supply studies from Lanzhou Jiaotong University in China in September 1977.

Mr. JIANG Nanchun（江南春）, aged 37, was appointed as the independent non-executive Director on in August 2009. Mr. Jiang has over 15 years of experience in the media and advertising industries in the PRC. He held the office of chief executive officer of Everease Advertising Corporation, which is one of the top 50 advertising agencies in China, from 1994 to 2003. In May 2003, Mr. Jiang became the general manager of Focus Media Advertisement. He also founded Focus Media Holding Limited ("**Focus Media**") (a company which is listed on the National Association of Securities Dealers Automated Quotations (NASDAQ)) and served as its chairman of the board of directors and the chief executive officer since May 2003. Mr. Jiang obtained his bachelor's degree in Chinese language and literature from East China Normal University in China in 1995.

Mr. AU-YEUNG Kwong Wah（歐陽廣華）, aged 46, was appointed as the independent non-executive Director in August 2009. Mr. Au-Yeung obtained a bachelor's degree in commerce from The Bond University in Australia in September 1996, a master's degree in accountancy from The Chinese University of Hong Kong in December 2000, a postgraduate diploma in corporate administration from The Hong Kong Polytechnic University in December 2005 and an EMBA degree from The Chinese University of Hong Kong in December 2008. Mr. Au-Yeung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He has over 11 years of experience in auditing and financial control through his prior employments with accounting firms and listed companies in Hong Kong. Mr. Au-Yeung was an executive director of C&O Pharmaceutical Technology Holdings Limited, the shares of which are listed on the main board of the Singapore Stock Exchange, from August 2005 to March 2006, after which he was re-designated as an independent non-executive director of this company from April 2006 to January 2007.

SENIOR MANAGEMENT

Mr. Alain DEROCHE, aged 49, the vice president and the publishing controller of two Group's international titles, namely "Numero" and "Intersection". Mr. Deroche joined our Group in June 2008 and is responsible for the management of our Group's international copyright business and the planning and content innovation for the Magazines. Prior to joining our Group, Mr. Deroche served as the general manager in charge of publishing in Asia for two and a half years and the publishing controller for ELLE's international edition in the International Department of a French company called Hachette Filipacchi Medias Group for five years. Mr. Deroche obtained his doctoral degree in international enterprise management from Universite´ Paris-Dauphine (English translation: Paris Dauphine University) in France in October 1986. He has over 26 years of experience in international media management of the international media industry.

Ms. YU Ping(虞萍), aged 41, the publishing controller of "LOHAS". Ms. Yu joined our Group in April 2007 and is responsible for the overall operation and management, as well as the overall brand marketing strategies of the two magazines of our Group. Prior to joining our Group, she had worked as the regional market controller in China for Luweimingxuan Perfume & Cosmetic Co., Ltd. for one and a half years and SMH International Trading (Shanghai) Co., Ltd. for about one year respectively. Ms. Yu obtained her MBA degree from China Europe International Business School (CEIBS) in September 2005. She has over 13 years of experience in marketing and is particularly familiar with the customers and business in our key segments, including luxury goods and cosmetic products.

Mr. TAN Chih-Cheng（譚志澄）, aged 46, the national human resource director of our Group. Mr. Tan joined our Group in June 2007 and is responsible for the human resource development planning and management of our Group. Prior to joining our Group, he was the chief human resource officer in China for the WPP Group for 3 years and the chief human resource officer in the greater China region for B&Q King Fisher Group UK for 3 years. Mr. Tan obtained his EMBA degree from National Chengchi University in Taiwan in September 2005. He has over 16 years of experience in the human resource sector which helps our Group in gradually developing our strategic human resource systems and reserves.

Ms. Amy Young Ying,（楊瑩）aged 36, was graduated in Shanghai Foreign Trade College, majored in Foreign Trade Economy and with more than 14 years' working experience in the Advertising, Marketing and Public Relationship. Ms. Young worked for Swatch Group and HK Wharf Holdings after graduation. In 2000, Ms. Young joined the Group as Marketing Director of its Shanghai Office and further on promoted as the Deputy General Manager. To broaden her publishing experience, Ms. Young joined Vogue Magazine, China as Associate Publisher and Advertising Director from May 2005 to July 2009. In August, 2009, Ms. Young rejoined the Group as Shanghai Office General Manager to manage the sales and marketing and assisting the business development of the Group.

Ms. ZHONG Yuanhong（鍾遠紅）, aged 39, the administration and production controller of our Group. Ms. Zhong, being one of the most senior employees of our Group, joined our Group in April 1998 and is responsible for the procurement, production and administrative management of our Group. Prior to joining our Group, she was an assistant to director in Ramada Pearl Hotel in Guangzhou for 3 years. Ms. Zhong completed her secondary education in Guangzhou No. 62 middle school in June 1989. She has over 15 years of experience in administrative management, with a particular expertise in printing and the post production management of publications, in the media industry.

Mr. CHING Siu Wai（程少偉）, aged 45, joined our Group in July 2003 as the creative director of City Magazine and is now the deputy general manager in Hong Kong, creative director of our Group and also the publishing director of City Magazine in Hong Kong. Mr. Ching is responsible for the management of the creative design business of our Group and the operation and management of City Magazine. Mr. Ching obtained a diploma in design from HK Chingying Institute of Visual Arts. He has over 20 years of solid experience in magazine design and the media industry. Mr. Ching was granted the Best Magazine Design Award by the Society of Publishers in Asia in 2005 and 2007 respectively.

Mr. LIM Timothy Edward（林添靈）, aged 36, joined our Group in February 2006 and is the fashion director of our Group responsible for the planning and development of the fashion aspects of the Magazines. Prior to joining our Group, Mr. Lim was the fashion editor of The South China Morning Post in Hong Kong for 6 years. Further, Mr. Lim has contributed to a number of famous international fashion magazines including Elle, Marie Claire, Tank and Bazaar in the past. Mr. Lim obtained his bachelor's degree from McGill University in Canada in 1997. He has over 13 years of experience in international fashion news reporting and styling for advertising and professional fashion media.

Ms. HUANG Wenhua（黃文樺）, aged 40, joined our Group in June 2002 and is the regional general manager of Guangzhou, responsible for the operation and management of the advertising business in Southern China. Prior to joining our Group, Ms. Huang was the head of the customer relations department in Central Hotel in Guangzhou for 2 years. She completed her secondary education in Guangzhou. Ms. Huang has over 11 years of experience in the media industry.

Directors' Report

The Directors are pleased to submit their report together with the audited financial statements of Modern Media Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

Principal activities and segment information

The principal activity of the Company is investment holding. The particulars and activities of the Company's subsidiaries are set out in note 35 to the consolidated financial statements. An analysis of the Group's performance for the year by business and geographical segments is set out in note 11 to the consolidated financial statements.

Financial results and distributable reserves

The profit of the Group for the year and the state of affairs of the Company and the Group as at 31 December 2010 are set out in the consolidated financial statements on pages 55 to 127.

Movements in the reserves of the Company and amounts available for distribution to shareholders are disclosed in note 27 to the financial statements. Movements in the reserves of the Group are disclosed in the consolidated statement of changes in equity on page 59.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: HK$ Nil).

Share capital

Details of the movements in the authorized and issued share capital of the Company are set out in note 26 to the financial statements of this Annual Report.

Fixed assets

Movements in the fixed assets of the Group are set out in note 12 to the financial statements.

Charitable donations

During the year, the Group did not make any charitable donations (2009: HK$99,000).

Major suppliers and customers

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 83.2% and 61.1% of the Group's total purchases for the year ended 31 December 2010 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 36.5% and 11.4% of the Group's total sales for the year ended 31 December 2010 respectively.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2010 had any interest in any of the five largest suppliers and customers disclosed above.

Five year financial summary

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 128.

Directors

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

Executive Directors

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

Independent Non-executive Directors

Mr. Jiang Nanchun
Mr. Wang Shi
Mr. Au-Yeung Kwong Wah

Directors' interests in shares, underlying shares and debentures of the Company

As at 31 December 2010, the Directors and chief executive of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code or as otherwise notified to the Company:

Long Positions in the Company

Name of Director	Company/Name of Group member	Capacity/ Nature of interest	Number of ordinary shares of the Company held	Approximate % of issued share capital
Shao Zhong ("Mr. Shao")	The Company	Beneficial owner	292,526,000(L)	70.15%
Wong Shing Fat	The Company	Beneficial owner	1,000,000(L)	0.24%
Li Jian	The Company	Beneficial owner	1,000,000(L)	0.24%
Mok Chun Ho, Neil	The Company	Beneficial owner	668,000(L)	0.16%
Cui Jianfeng	The Company	Beneficial owner	668,000(L)	0.16%

Long positions in the associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest
Mr. Shao	北京現代雅格廣告有限公司 (Beijing Modern Yage Advertising Co., Ltd. (for identification purposes only), "Beijing Yage")	Interest of controlled corporations (Note 2)	100%
Mr. Shao	北京雅格致美廣告傳播有限公司 (Beijing Yage Zhimei Advertising Media Co., Ltd. (for identification purposes only), "Beijing Yage Zhimei")	Interest of controlled corporations (Note 3)	100%
Mr. Shao	廣州現代資訊傳播有限公司 (Guangzhou Modern Information Media Co., Ltd. (for identification purposes only), "Guangzhou Modern Information")	Beneficial owner	100%
Mr. Shao	廣州現代圖書有限公司 (Guangzhou Modern Books Co., Ltd. (for identification purposes only), "Guangzhou Modern Books")	Beneficial owner	90%
Mr. Shao	Guangzhou Modern Books	Interest of controlled corporations (Note 4)	10%
Mr. Shao	廣州雅格廣告有限公司 (Guangzhou Yage Advertising Co., Ltd. (for identification purposes only), "Guangzhou Yage")	Interest of controlled corporations (Note 5)	100%
Mr. Shao	上海格致廣告有限公司 (Shanghai Gezhi Advertising Co., Ltd. (for identification purposes only), "Shanghai Gezhi")	Interest of controlled corporations (Note 6)	100%
Mr. Shao	上海雅格廣告有限公司 (Shanghai Yage Advertising Co., Ltd. (for identification purposes only), "Shanghai Yage")	Interest of controlled corporations (Note 7)	100%

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest
Mr. Shao	深圳市雅格致美資訊傳播有限公司 (Shenzhen Yage Zhimei Information Media Co., Ltd. (for identification purposes only), "Shenzhen Yage Zhimei")	Interest of controlled corporations (Note 8)	100%
Mr. Shao	珠海現代致美文化傳播有限公司 (Zhuhai Modern Zhimei Culture Media Co., Ltd. (for identification purposes only), "Zhuhai Modern Zhimei")	Interest of controlled corporations (Note 9)	100%
Mr. Shao	珠海市銀弧廣告有限公司 (Zhuhai Yinhu Advertising Co., Ltd. (for identification purposes only), "Zhuhai Yinhu")	Beneficial owner	90%
Mr. Shao	Zhuhai Yinhu	Interest of controlled corporations (Note 10)	10%

Notes:

1. The letter "L" denotes the Director's long position in the Shares.

2. Beijing Yage is held as to 80% by Guangzhou Modern Information and as to 20% by Guangzhou Modern Books. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Beijing Yage held by Guangzhou Modern Information and Guangzhou Modern Books, both of which are Mr. Shao's controlled corporations.

3. Beijing Yage Zhimei is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Beijing Yage Zhimei held by Zhuhai Modern Zhimei which is Mr. Shao's indirect controlled corporation.

4. Guangzhou Modern Books is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the 10% equity interest in Guangzhou Modern Books held by Guangzhou Modern Information, which is Mr. Shao's controlled corporation.

5. Guangzhou Yage is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Guangzhou Yage held by Zhuhai Modern Zhimei which is Mr. Shao's indirect controlled corporation.

6. Shanghai Gezhi is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Gezhi held by Zhuhai Modern Zhimei which is Mr. Shao's indirect controlled corporation.

7. Shanghai Yage is held as to 90% by Guangzhou Modern Information and as to 10% by Guangzhou Modern Books. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Yage held by Guangzhou Modern Information and Guangzhou Modern Books, both of which are Mr. Shao's controlled corporations.

8. Shenzhen Yage Zhimei is held as to 100% by Zhuhai Modern Zhimei, the equity interest of which is wholly held by Zhuhai Yinhu, which in turn is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Shenzhen Yage Zhimei held by Zhuhai Modern Zhimei which is Mr. Shao's indirect controlled corporation.

9. Zhuhai Modern Zhimei is held as to 100% by Zhuhai Yinhu, the equity interest of which is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Zhuhai Modern Zhimei held by Zhuhai Yinhu, 90% of which equity interest is beneficially held by Mr. Shao while he is deemed interested in 10% of which as his (indirect) controlled corporation.

10. Zhuhai Yinhu is held as to 90% by Mr. Shao and as to 10% by Guangzhou Modern Information. Mr. Shao is accordingly deemed by the SFO to be interested in the 10% equity interest in Zhuhai Yinhu held by Guangzhou Modern Information which is Mr. Shao's controlled corporation.

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

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31 December 2010, the Company had been notified of the following shareholder other than Directors having interests in shares representing 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of ordinary shares of the Company held	Percentage of issued ordinary shares as at 31 December 2010
Zhou Shaomin (note 1)	Interest of spouse	292,526,000 (L)	70.15%
Cheah Capital Management Limited (note 2)	Interest of corporation controlled by the substantial shareholder	23,466,000 (L)	5.86%
Cheah Cheng Hye (note 2)	Founder of a discretionary trust	23,466,000(L)	5.86%
Cheah Company Limited (note 2)	Interest of corporation controlled by the substantial shareholder	23,466,000(L)	5.86%
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	23,466,000(L)	5.86%
To Hau Yin (note 3)	Interest of a substantial shareholder's child under 18 or spouse	23,466,000(L)	5.86%
Value Partners Group Limited (note 2)	Interest of corporation controlled by the substantial shareholder	23,466,000(L)	5.86%
Value Partners Limited	Investment manager	23,466,000(L)	5.86%
Harmony Master Fund	Beneficial owner	20,858,000(L)	5.00%

*Note:

1. Madam. Zhou Shaomin is the wife of Mr. Shao Zhong and she is deemed interested in the shares held by Mr. Shao Zhang under the SFO.
2. According to the corporate substantial shareholder notice of Value Partners Limited filed on 17 September 2010, Cheah Cheng Hye, Value Partners Group Limited, Cheah Capital Management Limited and Cheah Company Limited are its director, immediate holding company, intermediate holding company and intermediate holding company respectively.
3. The relationship between To Hau Yin and Cheah Cheng Hye is parent and child under 18 year of age.

SHARE OPTION SCHEME

A share option scheme ("Scheme") was adopted by a resolution in writing passed by the then sole shareholder of the Company on 24 August 2009. The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Eligible participants of the Scheme include (i) employees of the Company, its subsidiaries or invested entity; (ii) non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) other groups or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (v) any company wholly owned by one or more eligible participants as referred to in the above categories. Subject to the earlier termination of the Scheme in accordance with its rules, the Scheme shall remain in force for a period of ten years commencing on 24 August 2009.

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital ("Issued Share Capital") of the Company from time to time. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the Issued Share Capital for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting with such participant and his associates abstaining from voting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors ("INEDs") of the Company. In addition, any share options granted to a substantial shareholder or an INED, or to any of their associates, in excess of 0.1% of the Issue Share Capital at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of such grant. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

No share option was granted, exercised, cancelled or had lapsed under the Scheme during the year. No share option was outstanding under the Scheme as at 31 December 2010.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors (including their spouses and children below 18 years of age) had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company during the year ended 31 December 2010.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

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

CONNECTED TRANSACTIONS

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

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

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

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

(d) option agreements dated 24 August 2009 entered into between Modern Media (HK) (as defined in the prospectus of the Company dated 28 August 2009) and (i) Mr. Shao and the Publishing and Investment Holding Entities; (ii) Zhuhai Modern Zhimei and the Sales Entities; (iii) Guangzhou Modern Information, Guangzhou Modern Books and the Production Entities, pursuant to which Modern Media (HK) was granted options to acquire the entire equity interest in the PRC Operational Entities at nil consideration or the minimum amount as permitted by the applicable PRC laws. Such option agreements became effective when it was executed on 24 August 2009 and will expire on the date on which all the equity interests in the PRC Operational Entities are transferred to Modern Media (HK) and/or its nominees;

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

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

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

The independent non-executive directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out from the date when the Contractual Arrangements became effective up to 31 December 2010 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operational Entities has been substantially retained by Zhuhai Technology; (ii) no dividends or other distributions have been made by the PRC Operational Entities to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the PRC Operational Entities during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

During the year, the Group has entered into certain related party transactions as disclosed in Note 30 to the consolidated financial statements. Such transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Company disclosed in its prospectus dated 28 August 2009 which the Group entered into and will continued to be carried out between members of the Group certain continuing connected transactions in respect of the Contractual Arrangements. (the "Continuing Connected Transactions").

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

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

The auditor has confirmed that:–

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

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 801 employees (2009: 722). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employees benefits include provident fund, insurance and medical cover and the share award plan adopted by the Company which became effective on 7 December 2009.

SHARE AWARD PLAN

To recognize and reward the contribution of eligible employees for their contribution to the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company approved an Employee Share Award Plan (the "Plan") on 3 December 2009. The Plan has become effective on 7 December 2009. The Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. As at 31 December 2010, the Company have contributed HK$10,000,000 (RMB8,803,000) in the Plan for acquiring shares to the share pool which have not yet been vested and the amount was recorded in the Company's statement of financial position.

PENSION SCHEME

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this Annual Report on pages 34 to 40.

AUDIT COMMITTEE

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained throughout the year ended 31 December 2010, the amount of public float as required under the Listing Rules.

CONFIRMATION OF INDEPENDENCE

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

AUDITORS

The consolidated financial statements have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company to be held in May 2011.

A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Shao Zhong
Chairman

Hong Kong, 28 March 2011

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

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Media Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 55 to 127, which comprise the consolidated and company statements of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

28 March 2011

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

2010 HKD'000 (Note 2(b)(ii))		Note	2010 RMB'000	2009 RMB'000
539,111	Turnover	3	456,255	333,156
(216,299)	Cost of sales		(183,056)	(146,042)
322,812	Gross profit		273,199	187,114
6,450	Other revenue	4(a)	5,459	2,849
(1,155)	Other net (loss)/income	4(b)	(978)	45
(109,022)	Selling and distribution expenses		(92,266)	(69,805)
(130,075)	Administrative and other operating expenses		(110,084)	(79,411)
89,010	Profit from operations		75,330	40,792
(1,390)	Finance costs	5(a)	(1,176)	(1,049)
478	Share of profit of an associate	16	405	91
—	Loss on disposal of an associate	16	—	(1,469)
(3,790)	Share of loss of a jointly controlled entity	17	(3,208)	(26)
84,308	Profit before taxation	5	71,351	38,339
(21,976)	Income tax	6(a)	(18,599)	(7,153)
62,332	Profit for the year		52,752	31,186
	Other comprehensive income for the year			
(1,435)	Exchange differences on translation of financial statements of overseas subsidiaries	7	(1,214)	142
60,897	Total comprehensive income for the year		51,538	31,328
62,332	Profit attributable to equity shareholders		52,752	31,186
60,897	Total comprehensive income attributable to equity shareholders		51,538	31,328
	Earnings per share (RMB)	8		
HKD0.15	–Basic and diluted		0.13	0.09

The notes on pages 62 to 127 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

Consolidated Statement of Financial Position

At 31 December 2010

2010 HKD'000 (Note 2(b)(ii))		Note	2010 RMB'000	2009 RMB'000
	Non-current assets			
85,150	Fixed assets	12	72,063	70,244
8,308	Intangible assets	13	7,031	3,503
15,315	Goodwill	14	12,961	—
5,299	Interest in an associate	16	4,485	—
1,999	Interest in a jointly controlled entity	17	1,692	4,900
2,363	Investments and deposits	18	2,000	—
3,767	Deferred tax assets	25(b)	3,188	2,215
122,201			103,420	80,862
	Current assets			
181,546	Trade receivables	19	153,644	113,776
91,658	Other receivables, deposits and prepayments	20	77,571	74,591
—	Taxation recoverable	25(a)	—	631
95,252	Deposits and cash	21	80,613	57,922
368,456			311,828	246,920
	Current liabilities			
28,095	Trade payables	22	23,777	35,350
905	Amount due to a jointly controlled entity	17	766	—
84,652	Other payables and accruals	22	71,642	45,756
9,808	Bank loans	23	8,301	1,447
—	Other loan	24	—	6,868
34,775	Taxation payable	25(a)	29,430	22,885
158,235			133,916	112,306
210,221	**Net current assets**		177,912	134,614

2010 HKD'000 (Note 2(b)(ii))		Note	2010 RMB'000	2009 RMB'000
332,422	**Total assets less current liabilities**		281,332	215,476
	Non-current liabilities			
(17,309)	Bank loans	23	(14,649)	(16,179)
315,113	**NET ASSETS**		266,683	199,297
	CAPITAL AND RESERVES			
4,342	Share capital	26	3,675	3,531
310,771	Reserves	27	263,008	195,766
315,113	**TOTAL EQUITY**		266,683	199,297

Approved and authorised for issue by the board of directors on 28 March 2011

Shao Zhong)
Wong Shing Fat) Directors

The notes on pages 62 to 127 form part of these financial statements.

Statement of Financial Position

At 31 December 2010

2010 HKD'000 (Note 2(b)(ii))		Note	2010 RMB'000	2009 RMB'000
	Non-current asset			
10,404	Investments in subsidiaries	15	8,805	8,805
	Current assets			
10,328	Receivables, deposits and prepayments	20	8,741	16,770
90,573	Amounts due from subsidiaries	15	76,653	51,203
15,480	Deposits and cash	21	13,101	14,510
116,381			98,495	82,483
	Current liabilities			
1,471	Payables and accruals	22	1,245	2,872
8,000	Bank loans	23	6,770	—
5,759	Amounts due to subsidiaries	15	4,874	5,070
15,230			12,889	7,942
100,151	**Net current assets**		85,606	74,541
111,555	**NET ASSETS**		94,411	83,346
	CAPITAL AND RESERVES	27		
4,342	Share capital		3,675	3,531
107,213	Reserves		90,736	79,815
111,555	**TOTAL EQUITY**		94,411	83,346

Approved and authorised for issue by the board of directors on 28 March 2011

Shao Zhong)
) Directors
Wong Shing Fat)

The notes on pages 62 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital (Note 26) RMB'000	Shares held for Share Award Scheme (Note 26(b)) RMB'000	Share premium (Note 27) RMB'000	Other reserve (Note 27) RMB'000	Statutory surplus and general reserves (Note 27) RMB'000	Exchange reserve (Note 27) RMB'000	Retained profits (Note 27) RMB'000	Total equity RMB'000
At 1 January 2009	4,672	—	—	—	2,779	(977)	158,602	165,076
Changes in equity for 2009:								
Profit for the year	—	—	—	—	—	—	31,186	31,186
Other comprehensive income (Note 7)	—	—	—	—	—	142	—	142
Total comprehensive income for the year	—	—	—	—	—	142	31,186	31,328
Arising from Group Reorganisation	(4,610)	—	—	4,259	—	—	—	(351)
Issuance of new shares	16	—	—	—	—	—	—	16
Capitalisation issue	2,572	—	(2,572)	—	—	—	—	—
Shares issued in connection with the Listing	881	—	86,410	—	—	—	—	87,291
Shares purchased for Share Award Scheme	—	(2,064)	—	—	—	—	—	(2,064)
Appropriations	—	—	—	—	—	—	(81,999)	(81,999)
Transfers	—	—	—	—	24,529	—	(24,529)	—
At 31 December 2009	3,531	(2,064)	83,838	4,259	27,308	(835)	83,260	199,297
At 1 January 2010	3,531	(2,064)	83,838	4,259	27,308	(835)	83,260	199,297
Changes in equity for 2010:								
Profit for the year	—	—	—	—	—	—	52,752	52,752
Other comprehensive income (Note 7)	—	—	—	—	—	(1,214)	—	(1,214)
Total comprehensive income for the year	—	—	—	—	—	(1,214)	52,752	51,538
Issuance of new shares	144	—	18,310	—	—	—	—	18,454
Shares purchased for Share Award Scheme	—	(2,732)	—	—	—	—	—	(2,732)
Shares vested under Share Award Scheme	—	126	—	—	—	—	—	126
At 31 December 2010	3,675	(4,670)	102,148	4,259	27,308	(2,049)	136,012	266,683

The notes on pages 62 to 127 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

2010 HKD'000 (Note 2(b)(ii))		Note	2010 RMB'000	2009 RMB'000
	Operating activities			
84,308	Profit before taxation		71,351	38,339
	Adjustments for:			
14,438	Depreciation of fixed assets	5(c)	12,219	9,128
749	Amortisation of intangible assets	5(c)	634	343
810	Impairment losses on trade receivables recognised, net	5(c)	686	184
149	Share-based payment expense	5(b)	126	—
(102)	Interest income	4(a)	(86)	(94)
1,390	Finance costs	5(a)	1,176	1,049
(478)	Share of profit of an associate	16	(405)	(91)
—	Loss on disposal of an associate	16	—	1,469
3,790	Share of loss of a jointly controlled entity	17	3,208	26
1,388	Loss on disposals of fixed assets	4(b)	1,175	28
1,083	Foreign exchange loss		917	348
	Changes in working capital:			
(48,388)	Increase in trade receivables		(40,951)	(19,801)
(13,079)	Increase in other receivables, deposits and prepayments		(11,069)	(18,170)
—	Increase in amounts due from related parties		—	(14,359)
(13,646)	(Decrease)/increase in trade payables		(11,549)	7,157
21,697	Increase/(decrease) in other payables and accruals		18,362	(27,004)
905	Increase in amount due to a jointly controlled entity		766	—
55,014	**Cash generated from/(used in) operations**		46,560	(21,448)
736	Hong Kong Profits Tax refunded/(paid)	25(a)	623	(206)
(15,568)	PRC Corporate Income Tax paid	25(a)	(13,175)	(10,552)
40,182	**Net cash generated from/(used in) operating activities**		34,008	(32,206)
	Investing activities			
102	Interest received		86	94
(18,030)	Payment for the purchase of fixed assets	12(a)	(15,259)	(12,375)
(638)	Payment for the purchase of intangible assets	13	(540)	(3,846)
72	Proceeds from disposals of fixed assets		61	2
(2,363)	Additions to unlisted investments	18	(2,000)	—
(10,634)	Acquisition of a business operation	31	(9,000)	—
(4,821)	Acquisition of an associate	16	(4,080)	—
—	Acquisition of a jointly controlled entity	17	—	(4,900)
(36,312)	**Net cash used in investing activities**		(30,732)	(21,025)

2010 HKD'000 (Note 2(b)(ii))		Note	2010 RMB'000	2009 RMB'000
	Financing activities			
(1,390)	Interest paid		(1,176)	(1,049)
8,286	Cash proceeds from the Listing	(b)	7,013	106,504
22,100	Cash proceeds from issuance of new shares	26(a)(vi)	18,704	—
(295)	Share issuing costs paid		(250)	(26,291)
	Payment for purchase of shares in connection			
(3,228)	with the Share Award Scheme	26(b)	(2,732)	(2,064)
8,000	Proceeds from new bank loan		6,770	18,728
(1,708)	Repayment of bank loan		(1,446)	(1,102)
(8,115)	Repayment of other loan	24	(6,868)	(20,853)
23,650	**Net cash generated from financing activities**		20,015	73,873
27,520	**Net increase in cash and cash equivalents**		23,291	20,642
68,441	**Cash and cash equivalents at beginning of the year**		57,922	37,291
(709)	**Effect of foreign exchange rates changes**		(600)	(11)
95,252	**Cash and cash equivalents at end of the year**		80,613	57,922
	Analysis of cash and cash equivalents			
95,252	Deposits and cash	21	80,613	57,922

Notes to the consolidated cash flow statement

(a) Major non-cash transactions

During the year ended 31 December 2009, the companies now comprising the Group declared a dividend of RMB81,999,000 to Mr. Shao Zhong ("Mr. Shao"). No dividend payment was made to Mr. Shao as the dividend payable to Mr. Shao has been used to set off against the advance due from him to the Group.

(b) At 31 December 2009, net proceeds receivable from ICBC International Securities Limited in connection with the Listing of RMB7,013,000 was subsequently received in 2010.

The notes on pages 62 to 127 form part of these financial statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION AND GROUP REORGANISATION

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

Pursuant to a group reorganisation completed on 24 August 2009 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 September 2009. Details of the Reorganisation are set out in the Prospectus of the Company dated 28 August 2009 (the "Prospectus") in connection with the initial listing of the Company's shares on the Stock Exchange (the "Listing").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(ii) The IASB has issued revised IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 3 (revised 2008), *Business combinations*

— Amendments to IAS 27, *Consolidated and separate financial statements*

— Improvements to IFRSs (2009)

The accounting policies set out from note 2(b) summarises the accounting policies of the Group and the Company after adoption of the above developments to the extent that they are relevant to the Group and the Company.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Statement of compliance *(continued)*

(ii) *(continued)*

The changes in accounting policy arising from IFRS 3 (revised 2008) which are relevant to the Group for the current period are as follows:

— As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Statement of compliance *(continued)*

(ii) *(continued)*

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The Group has applied IFRS 3 (revised 2008) in respect of the acquisition of business operation "iWeekly" during the year ended 31 December 2010, details of which are set out in note 31 and the revised standard has no material impact on the Group's results of operations and financial position for the comparative period.

The Group has assessed the impact of the adoption of the other new/revised IFRSs and the amendments and considered that there was no significant impact to the Group's results and financial position for current and prior periods.

The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2010 are set out in note 34.

(b) Basis of preparation of the financial statements

(i) The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in an associate and a jointly controlled entity.

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

The amount in these financial statements are presented in RMB. The translation into Hong Kong dollars of these financial statements as of, and for the year ended 31 December 2010 is for convenience only and has been made at the rate of HK$1.1816 to RMB1. This translation should not be construed as a representation that the RMB amounts actually represented have been, or could be, converted into Hong Kong dollars at this or any other rate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 33.

(c) Subsidiaries and controlled special purpose entities

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

An investment in a subsidiary and contributions to controlled special purpose entity are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Book value accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and controlled special purpose entities *(continued)*

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

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

(d) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(e) and 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates and jointly controlled entities *(continued)*

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

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in debt and equity securities

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

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

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

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

(g) Fixed assets

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

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

— Land and buildings held for own use	20 years
— Office equipment	3 - 5 years
— Furniture and fixtures	3 - 5 years
— Motor vehicles	5 - 10 years

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Intangible assets

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

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

—	Publication rights	80 months
—	Customer relationship	3 years
—	Club membership	15 years

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

(j) Impairment of assets

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

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

— significant financial difficulty of the debtor;

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(ii) Impairment of other assets

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

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

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

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Receivables

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

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Payables

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

(n) Interest-bearing borrowings

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

(o) Employee benefits

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Employee benefits *(continued)*

(iii) Share based payments

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

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

(iv) Termination benefits

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

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly to equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those difference relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Contingent liabilities acquired in business combinations

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

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Advertising income

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

(ii) Circulation income

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

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

(vi) Dividends

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Translation of foreign currencies

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

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

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

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

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

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a subsidiary, an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(v) Segment reporting

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

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

3 TURNOVER

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

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

	2010 RMB'000	2009 RMB'000
Advertising income	451,503	339,134
Circulation income	18,271	14,146
Sponsorship, event and service income	27,944	9,293
	497,718	362,573
Less: Sales taxes and other surcharges	(41,463)	(29,417)
	456,255	333,156

4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

(a) Other revenue

	2010 RMB'000	2009 RMB'000
Interest income from bank deposits	86	94
PRC government incentives (note)	4,994	2,683
Sundry income	379	72
	5,459	2,849

Note:

PRC government incentives mainly represented the amounts received by Shanghai Gezhi Advertising Co., Ltd., a wholly-owned subsidiary of the Group ("Shanghai Gezhi"). Pursuant to an agreement between Shanghai Gezhi and local government bureau dated 5 March 2007, Shanghai Gezhi received incentives of RMB4,644,000 and RMB2,430,000 from the local government bureau for its media development for the years ended 31 December 2010 and 31 December 2009 respectively which were computed based on a specified percentage of enterprise income tax, value-added tax, business tax, city development tax and individual income tax paid in the previous years.

(b) Other net (loss)/income

	2010 RMB'000	2009 RMB'000
Loss on disposals of fixed assets	(1,175)	(28)
Net foreign exchange gain	197	73
	(978)	45

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2010 RMB'000	2009 RMB'000
(a) Finance costs		
Interest charged on:		
– Bank loans repayable within 5 years	70	—
– Bank loans repayable after 5 years	1,106	1,049
	1,176	1,049
(b) Staff costs		
Salaries, wages and other benefits	115,218	82,776
Share based payments expense (note 26(b)(ii))	126	—
Contributions to defined contribution retirement plan (note)	18,508	14,706
	133,852	97,482
Staff costs included in:		
– Cost of sales	52,562	39,691
– Selling and distribution expenses	43,798	30,258
– Administrative and other operating expenses	37,492	27,533
	133,852	97,482
(c) Other items		
Depreciation of fixed assets	12,219	9,128
Amortisation of intangible assets	634	343
Auditors' remuneration	1,754	1,594
Operating lease charges in respect of properties	16,293	13,698
Impairment losses on trade receivables recognised, net	686	184

Note:

Employees of the Group's subsidiaries operated in the PRC are required to participate in a defined contribution retirement benefit scheme administered and operated by the local municipal government. The Group's subsidiaries operated in the PRC are required to make contributions to the scheme at 20% of the employees' salaries for the years ended 31 December 2010 and 2009 to fund the retirement benefits of the employees.

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

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

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	2010 RMB'000	2009 RMB'000
Current tax – PRC Corporate Income Tax		
Provision for the year	20,362	9,343
Under-provision in respect of prior years	450	—
	20,812	9,343
Current tax – Hong Kong Profits Tax		
Provision for the year	—	25
Over-provision in respect of prior years	(1,077)	—
	(1,077)	25
Deferred tax		
Origination of temporary differences (note 25(b))	(1,136)	(2,215)
	18,599	7,153

Notes:

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

(ii) The provisions for Hong Kong Profits Tax for the years ended 31 December 2010 and 2009 were calculated at 16.5% of the estimated assessable profits for the respective years.

(iii) Taxation for subsidiaries operating in the PRC is calculated at the prevailing tax rates based on existing legislation, interpretations and practices in respect thereof.

(iv) The Group's PRC operations are subject to the following income tax rates:

— Zhuhai Modern Zhimei Culture Media Co., Ltd.（珠海現代致美文化傳播有限公司）, Zhuhai Yinhu Advertising Co., Ltd.（珠海市銀弧廣告有限公司）, Shenzhen Yage Zhimei Information Media Co., Ltd.（深圳市雅格致美資訊傳播有限公司）and Shanghai Gezhi Advertising Co., Ltd.（上海格致廣告有限公司）are subject to income tax at 20%, 22%, 24% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively.

— With effect from 2009, the permitted business scope of Modern Media (Zhuhai) Technology Co., Ltd.（現代傳播（珠海）科技有限公司, "Zhuhai Technology")has been amended to include the provision of consultation services on project planning, social economic information and enterprise management and enterprise image planning. Accordingly, Zhuhai Technology is no longer entitled to the 2+3 tax holiday and is subject to income tax at 20%, 22%, 24% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively.

— Yazhimei Information Consultation (Shenzhen) Co., Ltd.（雅致美信息諮詢（深圳）有限公司）, Guangzhou Modern Information Media Co., Ltd.(廣州現代資訊傳播有限公司), Shanghai Yage Advertising Co., Ltd.(上海雅格廣告有限公司), Beijing Modern Yage Advertising Co., Ltd.(北京現代雅格廣告有限公司), Beijing Yage Zhimei Advertising Media Co., Ltd.(北京雅格致美廣告傳播有限公司), Guangzhou Modern Books Co., Ltd.（廣州現代圖書有限公司）and Guangzhou Yage Advertising Co., Ltd.（廣州雅格廣告有限公司）are subject to income tax at 25% (2009: 25%).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

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

The new tax 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 December 2010, the Group has not provided for income taxes on accumulated earnings generated by its PRC entities for the years ended 31 December 2010 and 31 December 2009 since it is probable that they will not be distributed to its immediate holding company outside Mainland China in the foreseeable future. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	71,351	38,339
Notional tax on profit before taxation, calculated at the rate of 25% (2009: 25%)	17,838	9,585
Effect of differential tax rate on income	(11)	(1,656)
Tax effect of non-deductible expenses	2,890	1,151
Tax effect of non-taxable revenue	(67)	—
Tax effect of prior years' unrecognised tax losses recognised this year	(929)	—
Tax effect of prior years' unrecognised tax losses utilised this year	(1,849)	(200)
Tax effect of prior years' other temporary differences recognised / (utilised) this year	40	(1,518)
Tax effect of unused tax losses not recognised	1,662	312
Over-provision in respect of prior years	(627)	—
Others	(348)	(521)
Actual tax expense	18,599	7,153

7 OTHER COMPREHENSIVE INCOME

	2010 RMB'000	2009 RMB'000
Exchange differences on translation of financial statements of overseas subsidiaries	(1,214)	142

There is no tax effects relating to the above component of other comprehensive income.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB52,752,000 (2009: RMB31,186,000) and the weighted average number of ordinary shares in issue after adjusting for shares held for share award scheme and placing of shares of 400,405,000 (2009: 331,233,000) calculated as follows.

	Note	2010 '000	2009 '000
Issued ordinary share at 1 January		400,000	300,000
Effect of shares issued in connection with the Listing	26(a)(v)	—	31,233
Effect of shares held for share award scheme	26(b)	(3,973)	—
Effect of share placement	26(a)(vi)	4,378	—
		400,405	331,233

There were no dilutive potential ordinary shares during the years ended 31 December 2010 and 31 December 2009.

9 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2010					2009
	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000	Total RMB'000
Executive Directors						
SHAO Zhong	—	2,445	40	43	2,528	1,066
WONG Shing Fat	—	2,293	2,259	84	4,636	1,762
LI Jian	—	1,229	1,398	56	2,683	1,054
MOK Chun Ho, Neil	—	1,146	454	45	1,645	941
CUI Jianfeng	—	899	975	10	1,884	416
Independent Non-executive Directors						
JIANG Nanchun	100	—	—	—	100	40
WANG Shi	100	—	—	—	100	40
AU-YEUNG Kwong Wah	183	—	—	—	183	40
Total	383	8,012	5,126	238	13,759	5,359
Total for 2009	120	5,077	—	162		5,359

9 DIRECTORS' REMUNERATION

Notes:

(i) No Director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No Director waived or agreed to waive any emoluments during the years ended 31 December 2010 and 31 December 2009.

(ii) The Company has not granted any options under its share option scheme adopted on 24 August 2009 during the years ended 31 December 2010 and 31 December 2009.

10 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 and 4 directors during the years ended 31 December 2010 and 31 December 2009 respectively whose emoluments are disclosed in note 9. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2010 RMB'000	2009 RMB'000
Basic salaries, allowances and benefits in kind	2,274	2,280
Discretionary bonuses	331	—
Retirement scheme contributions	—	—
	2,605	2,280

The emoluments of these individuals are within the following band:

	Number of individuals	
	2010	2009
RMB2,000,001 to RMB2,500,000	—	1
RMB2,500,001 to RMB3,000,000	1	—

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2010 and 31 December 2009.

11 SEGMENT REPORTING

The Group has six reportable segments as described below, which are the Group's strategic business units. The Group's business units offer different advertising services to its customers based on the geographical locations of the advertising customers; and also provides circulation of magazines to distributors. For each of the business units, the Group's senior executive management reviews internal management reports on a monthly basis. Segment information below is presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The following describes the operations in each of the Group's reportable segments:

— Advertising (Shanghai/Beijing/Guangzhou/Shenzhen/Hong Kong): these segments engage in the sale of advertising space in the Group's magazines. The Group's advertising business is segregated into five reportable segments on a geographical basis, as monthly reports on the results of each advertising business are provided to the senior executive management by the respective area manager for each of these regions.

— Circulation: this segment engages in the publication of and the distribution of the Group's magazines in the PRC and Hong Kong.

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

(a) Segment results and assets

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

Segment assets include only trade receivables arising from the advertising and circulation segments as the Group's senior executive management considers that the recoverability of the trade receivables has significant impact to the Group's actual performance, liquidity and credit risk.

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

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

11 SEGMENT REPORTING *(continued)*

(a) Segment results and assets *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below:

	Year ended 31 December 2010							
			Advertising				Circulation	
	Shanghai	Beijing	Guangzhou	Shenzhen	Hong Kong	Sub-Total		Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue derived from the Group's external customers	304,901	48,973	54,916	22,740	19,973	451,503	18,271	469,774
Reportable segment profit/(loss)	174,958	3,343	(123,125)*	11,052	(20,707)	45,521	18,271	63,792
Interest income	31	7	25	6	7	76	—	76
Interest expense	—	—	—	(1,106)	—	(1,106)	—	(1,106)
Depreciation for the year	(2,937)	(2,550)	(3,917)	(1,237)	(977)	(11,618)	—	(11,618)
Amortisation for the year	—	—	(577)	—	(57)	(634)	—	(634)
Reportable segment assets	96,305	19,893	9,792	2,413	5,943	134,346	11,239	145,585

	Year ended 31 December 2009							
			Advertising				Circulation	
	Shanghai	Beijing	Guangzhou	Shenzhen	Hong Kong	Sub-Total		Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue derived from the Group's external customers	216,231	38,064	48,767	14,784	21,288	339,134	14,146	353,280
Reportable segment profit/(loss)	127,829	1,699	(97,256)*	(546)	(10,941)	20,785	14,146	34,931
Interest income	47	8	28	2	6	91	—	91
Interest expense	—	—	—	(1,049)	—	(1,049)	—	(1,049)
Depreciation for the year	(2,665)	(1,961)	(1,238)	(1,824)	(887)	(8,575)	—	(8,575)
Amortisation for the year	—	—	(300)	—	(43)	(343)	—	(343)
Reportable segment assets	70,224	7,915	10,182	5,325	10,204	103,850	9,558	113,408

* Included in this segment was the Group's printing costs of RMB90,791,000 (2009: RMB80,603,000).

11 SEGMENT REPORTING *(continued)*

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

	2010 RMB'000	2009 RMB'000
Revenue		
Reportable segment revenue derived from the Group's external customers	469,774	353,280
Other income	27,944	9,293
Less: Sales taxes and other surcharges	(41,463)	(29,417)
Consolidated turnover	456,255	333,156
Profit		
Reportable segment profit derived from the Group's external customers	63,792	34,931
Other income	27,944	9,293
Share of profit of an associate	405	91
Loss on disposal of an associate	—	(1,469)
Share of loss of a jointly controlled entity	(3,208)	(26)
Unallocated head office and corporate expense (note)	(17,582)	(4,481)
Consolidated profit before taxation	71,351	38,339

Note: Depreciation of RMB601,000 is included in unallocated head office and corporate expense for the year ended 31 December 2010 (2009: RMB553,000).

Interest income of RMB10,000 is included in unallocated head office and corporate expense for the year ended 31 December 2010 (2009: RMB3,000).

Interest expenses of RMB70,000 is included in unallocated head office and corporate expenses for the year ended 31 December 2010 (2009: RMBNil).

11 SEGMENT REPORTING *(continued)*

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

	2010 RMB'000	2009 RMB'000
Assets		
Reportable segment assets	145,585	113,408
Fixed assets	72,063	70,244
Intangible assets	7,031	3,503
Goodwill	12,961	—
Interest in an associate	4,485	—
Interest in a jointly controlled entity	1,692	4,900
Investments and deposits	2,000	—
Deferred tax assets	3,188	2,215
Sponsorship, event and service income receivable	8,059	368
Other receivables, deposits and prepayments	77,571	74,591
Taxation recoverable	—	631
Deposits and cash	80,613	57,922
Consolidated total assets	415,248	327,782

(c) Geographic information

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

	2010 RMB'000	2009 RMB'000
The PRC (place of domicile)	95,097	73,533
Taiwan (note)	920	—
Hong Kong	4,215	5,114
	100,232	78,647

Note: During the year, the Group set up a branch office in Taiwan.

(d) Major customers

The Group's customer base includes one customer (2009: one customer) with whom transactions have exceeded 10% of the Group's revenues. During the years ended 31 December 2010 and 2009, advertising income from these customers amounted to RMB51,532,000 and RMB45,795,000 respectively and arose in Shanghai, Beijing and Guangzhou reportable segments in which the advertising division is active.

12 FIXED ASSETS

(a) The Group

	Land and buildings held for own use RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:						
At 1 January 2009	39,338	18,409	15,325	4,888	7,738	85,698
Additions	835	6,093	2,816	2,596	35	12,375
Disposals	—	—	—	—	(451)	(451)
Exchange differences	—	(7)	(8)	(2)	(9)	(26)
At 31 December 2009	40,173	24,495	18,133	7,482	7,313	97,596
At 1 January 2010	40,173	24,495	18,133	7,482	7,313	97,596
Additions	—	5,118	3,163	3,936	3,042	15,259
Arising from business combination (note 31)	—	—	174	—	—	174
Disposals	—	(1,183)	(100)	(215)	(523)	(2,021)
Exchange differences	—	(63)	(68)	(76)	(58)	(265)
At 31 December 2010	40,173	28,367	21,302	11,127	9,774	110,743
Accumulated depreciation:						
At 1 January 2009	1,573	5,805	6,851	2,782	1,645	18,656
Charge for the year	1,361	3,296	2,914	569	988	9,128
Written back on disposals	—	—	—	—	(421)	(421)
Exchange differences	—	(1)	(6)	(1)	(3)	(11)
At 31 December 2009	2,934	9,100	9,759	3,350	2,209	27,352
At 1 January 2010	2,934	9,100	9,759	3,350	2,209	27,352
Charge for the year	798	4,512	3,558	1,989	1,362	12,219
Written back on disposals	—	(359)	(87)	(172)	(167)	(785)
Exchange differences	—	(4)	(58)	(18)	(26)	(106)
At 31 December 2010	3,732	13,249	13,172	5,149	3,378	38,680
Net book value:						
At 31 December 2010	36,441	15,118	8,130	5,978	6,396	72,063
At 31 December 2009	37,239	15,395	8,374	4,132	5,104	70,244

12 FIXED ASSETS *(continued)*

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

	2010 RMB'000	2009 RMB'000
Leasehold properties held outside Hong Kong – Medium-term leases (20-50 years)	36,441	37,239

(c) Pledge of assets

Land and buildings held by a subsidiary with carrying value of RMB36,441,000 (2009: RMB37,239,000) was pledged as security for the bank loans amounted to RMB16,180,000 as at 31 December 2010 (2009: RMB17,626,000) (note 23).

13 INTANGIBLE ASSETS

The Group

	Publishing rights RMB'000	Customer relationship RMB'000	Others RMB'000	Total RMB'000
Cost:				
Additions during the year and at 31 December 2009	3,000	—	846	3,846
At 1 January 2010	3,000	—	846	3,846
Additions during the year	—	—	540	540
Arising from business combination (note 31)	—	3,652	—	3,652
Exchange differences	—	—	(33)	(33)
At 31 December 2010	3,000	3,652	1,353	8,005
Accumulated amortisation:				
Charge for the year and at 31 December 2009	300	—	43	343
At 1 January 2010	300	—	43	343
Charge for the year	525	52	57	634
Exchange differences	—	—	(3)	(3)
At 31 December 2010	825	52	97	974
Net book value:				
At 31 December 2010	2,175	3,600	1,256	7,031
At 31 December 2009	2,700	—	803	3,503

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

14 GOODWILL

Goodwill arose from the acquisition of business operation "iWeekly" during the year ended 31 December 2010. For the purpose of impairment testing, goodwill has been allocated to the following cash generating units ("CGU"):

	The Group
	RMB'000
Cost and carrying amount:	
Additions during the year and at 31 December 2010 (note 31)	12,961

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the 3-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 23.8%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

As at 31 December 2010, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. No impairment was recorded.

15 INVESTMENTS IN SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

	2010	2009
	RMB'000	RMB'000
Non-current assets		
Unlisted shares, at cost	—	—
Contribution to Modern Media Employee Share Trust	8,805	8,805
	8,805	8,805
Current assets/(liabilities)		
Amounts due from subsidiaries	76,653	51,203
Amounts due to subsidiaries	(4,874)	(5,070)
	71,779	46,133

The particulars of the subsidiaries comprising the Group and controlled special purpose entity are disclosed in note 35.

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

16 INTEREST IN AN ASSOCIATE

The Group

	2010 RMB'000	2009 RMB'000
Share of net assets	2,775	—
Goodwill	1,710	—
	4,485	—

In April 2010, the Group entered into sale and purchase agreements with independent third parties to acquire 40% equity interests in Chongqing Yubao Culture Media Co., Ltd. ("Chongqing Yubao") for a consideration of RMB4,080,000 (the "Acquisition"). Chongqing Yubao was incorporated in the PRC which is engaged in the provision of advertising and media services.

Goodwill of RMB1,710,000 arising from the Acquisition represented the difference between the consideration and the fair value of identifiable assets acquired/liabilities assumed.

On 11 May 2009, the Group disposed of its entire 20% equity interests in Tianjin Holiday to an independent third party for a consideration of RMB8,101,200. The disposal resulted in a loss of RMB1,468,800 representing the difference between the net proceeds of consideration and net assets of RMB9,570,000 disposed. The Group's share of profit of Tianjin Holiday for the period from 1 January 2009 to 10 May 2009 amounting to RMB91,000 was included in the consolidated statement of comprehensive income of the Group.

Details of the Group's interest in the associate as at 31 December 2010 are as follows:

Name of associate	Place of establishment and operation	Particulars of paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Chongqing Yubao Culture Media Co., Ltd. (重慶渝報文化傳播有限公司)	The PRC	RMB10,000,000	40%	40%	wholesaling and retailing Chongqing Yubao; Provision of advertising, publication and media service

16 INTEREST IN AN ASSOCIATE *(continued)*

The Group *(continued)*

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

	2010 RMB'000	2009 RMB'000
Total assets	3,826	—
Total liabilities	(1,051)	—
	2,775	—
Revenue for the year	3,231	2,117
Profit for the year	405	91

17 INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group

	2010 RMB'000	2009 RMB'000
Share of net assets	875	4,083
Goodwill	817	817
	1,692	4,900
Amount due to a jointly controlled entity (note)	766	—

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

Details of the Group's interest in the jointly controlled entity as at 31 December 2010 are as follows:

Name of jointly controlled entity	Place and date of incorporation/ registration and operations	Authorised share capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Hangzhou Shili Cultural Media Co., Ltd. (杭州實力文化傳播有限公司)	The PRC 3 July 2007	RMB10,000,000	49%	49%	Publication of magazine in the PRC and selling of advertising spaces

In December 2009, the Group acquired 49% equity interests in a PRC incorporated entity, Hangzhou Shili Cultural Media Co., Ltd. (杭州實力文化傳播有限公司, "Hangzhou Shili") which is engaged in the provision of publication of magazines and advertising services at a consideration of RMB4,900,000. The Group is entitled to share 49% of the financial results of Hangzhou Shili. Notwithstanding the 49% of the registered capital of and the profit sharing arrangements of Hangzhou Shili, the Group accounts for the investment in Hangzhou Shili as a jointly controlled entity as it has joint control over the operating and financial decisions of Hangzhou Shili.

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

The Group *(continued)*

Goodwill of RMB817,000 arising from the acquisition of Hangzhou Shili represented the difference between the consideration and the fair value of identifiable assets acquired/liabilities assumed.

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

	2010 RMB'000	2009 RMB'000
Non-current assets	203	98
Current assets	2,113	4,513
Current liabilities	(1,441)	(528)
Net assets	875	4,083
Income	1,818	—
Expenses	(5,026)	(26)
Loss for the year	(3,208)	(26)

18 INVESTMENTS AND DEPOSITS

	2010 RMB'000	2009 RMB'000
Equity securities		
Unlisted equity securities, at cost	2,000	—

In April 2010, the Group injected capital of RMB2,000,000 to obtain 4% equity interests in Zhejiang Dream Media Co., Ltd. (浙江夢想傳媒有限公司), a company incorporated in the PRC which is engaged in the provision of advertising and media services.

19 TRADE RECEIVABLES

The Group normally allows a credit period ranging from 30 to 150 days to its advertising and circulation customers. Further details on the Group's credit policy are set out in note 32(a).

	2010 RMB'000	2009 RMB'000
Trade receivables	154,330	113,776
Less: Allowance for doubtful debts	(686)	—
	153,644	113,776

(a) Ageing analysis

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

	2010 RMB'000	2009 RMB'000
Within 30 days	67,053	40,738
31 days to 90 days	54,826	45,111
91 days to 180 days	28,677	18,215
More than 180 days	3,774	9,712
	154,330	113,776
Less: Allowance for doubtful debts	(686)	—
	153,644	113,776

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

19 TRADE RECEIVABLES *(continued)*

(b) Impairment of trade receivables

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

The movements in allowances for doubtful debts during the year are as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	—	608
Impairment loss recognised	686	719
Write-back of impairment loss previously recognised	—	(535)
Uncollectible amounts written off	—	(792)
At 31 December	686	—

At 31 December 2010 and 31 December 2009, the Group's trade receivables of RMB686,000 and RMBNil were individually determined to be impaired respectively. The individually impaired receivables related to customers which management assessed that only a portion of the receivables was expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	112,645	75,531
Less than 1 month past due	19,636	15,632
1 to 3 months past due	15,609	13,412
Over 3 months past due	5,754	9,201
	40,999	38,245
	153,644	113,776

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

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

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Prepayments	18,438	11,190	278	887
Rental, utility and other deposits	5,837	4,276	—	—
Printing deposits	1,891	9,633	8,463	8,805
Advances to employees	6,510	3,823	—	—
Value-added tax recoverable	13,812	10,741	—	—
Receivables in respect of net proceeds from the Listing (note (b))	—	7,078	—	7,078
Other receivables (note (c))	21,083	27,850	—	—
	77,571	74,591	8,741	16,770

Notes:

(a) At 31 December 2010, the amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as an expense after more than one year is RMB4,346,000 (2009: RMB2,558,000).

(b) At 31 December 2009, net proceeds receivable from ICBC International Securities Limited in connection with the Listing amounted to RMB7,078,000 and had been settled during the year ended 31 December 2010.

(c) At 31 December 2010, other receivables included the amounts of RMB13,397,000 (2009: RMB17,202,000) due from Guangzhou Zhongde Consultation Co., Ltd. ("Guangzhou Zhongde"). Guangzhou Zhongde was previously owned by Mr Shao, the major shareholder of the Company and subsequently disposed to an independent third party in April 2009. The amounts due from Guangzhou Zhongde were reclassified to other receivables in 2009. The amounts due from Guangzhou Zhongde are unsecured, interest free and repayable by instalments.

21 DEPOSITS AND CASH

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash at bank held for specific use (note)	3,812	6,733	—	—
Deposits with bank	—	10,566	—	10,566
Cash at banks	75,501	40,293	13,101	3,944
Cash in hand	1,300	330	—	—
	76,801	51,189	13,101	14,510
Deposits and cash	80,613	57,922	13,101	14,510

As at 31 December 2010 and 2009, deposits and cash of the Group included the amounts denominated in RMB of RMB60,579,000 and RMB28,151,000 respectively. Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Note: Cash at bank held for specific use represented cash deposited at bank held by a controlled special purpose entity for the purpose of acquiring the Company's shares for awarding to the Group's employees (including directors) under the Share Award Scheme. Details of the Share Award Scheme are set out in note 26(b).

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade payables (note 22(a))	23,777	35,350	—	—
Other payables (note 22(b))	66,826	41,026	209	1,551
Accruals	4,816	4,730	1,036	1,321
Other payables and accruals	71,642	45,756	1,245	2,872

All of the trade and other payables are expected to be settled within one year.

22 TRADE AND OTHER PAYABLES *(continued)*

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

	2010 RMB'000	2009 RMB'000
Within 30 days	6,196	14,964
31 days to 90 days	10,318	11,827
91 days to 180 days	7,040	8,536
More than 180 days	223	23
	23,777	35,350

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

	2010 RMB'000	2009 RMB'000
Deposits received in advance	4,038	5,554
Salaries, wages, bonus and benefits payable	15,022	7,989
Other tax payables	26,413	20,500
Amount due to a director (note (i))	—	592
Other payables (note (ii))	21,353	6,391
	66,826	41,026

Notes:

(i) At 31 December 2009, amount due to a director was unsecured, interest free and had no fixed terms of repayment.

(ii) Other payables at 31 December 2010 included the contingent consideration to be payable of RMB7,787,000 in respect of the acquisition of the business operation of "iWeekly" (note 31).

23 BANK LOANS

At 31 December 2010, the bank loans were repayable as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 1 year or on demand	8,301	1,447	6,770	—
After 1 year but within 2 years	1,638	1,544	—	—
After 2 years but within 5 years	5,630	5,285	—	—
After 5 years	7,381	9,350	—	—
	14,649	16,179	—	—
	22,950	17,626	6,770	—

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Bank loans				
– Unsecured	6,770	—	6,770	—
– Secured	16,180	17,626	—	—
	22,950	17,626	6,770	—

At 31 December 2010, the bank loans of a subsidiary were secured by a mortgage over the property in Beijing, the PRC, with a carrying value of RMB36,441,000 (2009: RMB37,239,000) (note 12(c)). The Company and Shanghai Gezhi Advertising Co., Ltd., a subsidiary of the Group provided corporate guarantees in respect of the bank loans.

24 OTHER LOAN

In March 2010, the Group repaid RMB6,868,000 (equivalent to US$1,000,000) of the other loan.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2010 RMB'000	2009 RMB'000
At 1 January	22,254	23,647
Provision for the year:		
– PRC Corporate Income Tax	20,812	9,343
– Hong Kong Profits Tax	(1,077)	25
Tax paid:		
– PRC Corporate Income Tax	(13,175)	(10,552)
– Hong Kong Profits Tax	623	(206)
	29,437	22,257
Exchange differences	(7)	(3)
At 31 December	29,430	22,254
Represented by:		
Taxation recoverable	—	(631)
Taxation payable	29,430	22,885
	29,430	22,254

Taxation payable in the consolidated statement of financial position at 31 December 2010 is expected to be payable within one year.

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

(b) Deferred tax assets recognised

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

	Future benefit of tax losses	
	2010 RMB'000	2009 RMB'000
Deferred tax assets arising from:		
At 1 January	2,215	—
Exchange adjustment	(163)	—
Credited to profit or loss (note 6(a))	1,136	2,215
At 31 December	3,188	2,215

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of accumulative tax losses of RMB2,013,000 and RMB289,000 at 31 December 2010 and 2009 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the PRC operations expire five years after the relevant accounting year end date.

26 SHARE CAPITAL

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

The Company

	Note	No. of shares	Ordinary shares US$'000	Ordinary shares HK$'000
Authorised:				
At 1 January 2009		50,000,000	50	—
Cancellation of shares	(i)	(50,000,000)	(50)	—
Increase in shares at HK$0.001 each	(i)	387,500,000	—	388
Share consolidation from HK$0.001 each to HK$0.01 each	(ii)	(348,750,000)	—	—
		38,750,000	—	388
Increase in shares at HK$0.01 each	(iii)	7,961,250,000	—	79,612
At 31 December 2009, 1 January 2010 and 31 December 2010		8,000,000,000	—	80,000
Equivalent to RMB'000				70,485

	Note	No. of shares	Ordinary shares US$'000	Ordinary shares HK$'000
Issued and fully paid:				
At 1 January 2009		8,000,000	8	—
Cancellation of shares	(i)	(8,000,000)	(8)	—
Shares allotted	(i)	62,000,000	—	62
Share consolidation from HK$0.001 each to HK$0.01 each	(ii)	(55,800,000)	—	—
		6,200,000	—	62
Shares allotted	(iii)	1,800,000	—	18
Capitalisation issue	(iv)	292,000,000	—	2,920
Shares issued in connection with the Listing	(v)	100,000,000	—	1,000
At 31 December 2009		400,000,000	—	4,000
Equivalent to RMB'000				3,531
At 1 January 2010		400,000,000	—	4,000
Placing of shares	(vi)	17,000,000	—	170
At 31 December 2010		417,000,000	—	4,170
Equivalent to RMB'000				3,675

26 SHARE CAPITAL *(continued)*

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

The Company *(continued)*

Notes:

(i) On 10 August 2009, the authorised share capital of the Company was increased by HK$387,500, by the creation of 387,500,000 new shares of HK$0.001 each, of which 62,000,000 new shares of HK$0.001 each were allotted and issued fully paid to Mr. Shao. Immediately thereafter, the Company then repurchased all of the 8,000,000 issued shares of US$0.001 each at a price of US$8,000 and cancelled 50,000,000 shares of US$0.001 each in the authorised share capital of the Company.

(ii) On 10 August 2009, resolutions were passed by the sole shareholder (namely, Mr. Shao), pursuant to which every ten shares having a par value of HK$0.001 each in the Company were consolidated into one share having a par value of HK$0.01 each. Accordingly, the authorised share capital remained to be HK$387,500 comprising 38,750,000 shares having a par value of HK$0.01 each; and the issued share capital remained to be HK$62,000 (equivalent to RMB62,000).

(iii) On 17 August 2009, a resolution in writing was passed by Mr. Shao, pursuant to which the authorised share capital of the Company was increased to HK$80,000,000 (equivalent to RMB70,485,000) by the creation of a further 7,961,250,000 shares of HK$0.01 each in the share capital of the Company to rank pari passu in all respects with the then existing issued shares of HK$0.01 each in the share capital of the Company. On the same date, Mr. Shao applied for 1,800,000 additional shares which were allotted and issued by the Company. Immediately thereafter, the issued share capital of the Company increased to HK$80,000 (equivalent to RMB78,000) divided into 8,000,000 shares.

(iv) On 24 August 2009, a resolution in writing was passed by Mr. Shao, pursuant to which the Directors were authorised to allot and issue a total of 292,000,000 shares of HK$0.01 each to the then existing shareholder(s) of the Company. This resolution was conditional on the share premium account being credited as a result of the Company's Listing and pursuant to this resolution, a sum of HK$2,920,000 (equivalent to RMB2,572,000) standing to the credit of the share premium account was subsequently applied in paying up this capitalisation in full.

The allotment and issue of shares of the Company mentioned above is referred to as the "Capitalisation issue".

(v) On 9 September 2009, the Company completed the Listing and issued an aggregate of 100,000,000 shares of par value HK$0.01 each at an offer price of HK$1.29 per share, to the public in Hong Kong. The Company raised approximately HK$97,766,000 (equivalent to RMB87,291,000) in total, net of related expenses from the Listing.

(vi) Placing of shares

On 17 September 2010, the Company entered into Share Subscription Agreements with independent third parties, Harmony Master Fund ("HMF") and Value Partners Limited ("VPL"), for placing of 10,000,000 and 7,000,000 new shares to HMF and VPL Funds respectively, both at a price of HK$1.30 per share having a par value of HK$0.01 each (the "Placing").

On 29 September 2010, the Company issued and allotted 17,000,000 shares for gross proceeds of HK$22,100,000 (equivalent to RMB18,704,000). The difference of HK$21,635,000 (equivalent to RMB18,310,000) between the net proceeds of HK$21,805,000 (equivalent to RMB18,454,000) and the par value of the shares issued of HK$170,000 (equivalent to RMB144,000) has been credited to the share premium account of the Company (note 27(a)).

The details of the Placing were set out in the Company's announcement dated 17 September 2010.

26 SHARE CAPITAL *(continued)*

(b) Share award scheme

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

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

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

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

During the year, the controlled special purpose entity purchased 2,360,000 (2009: 1,820,000) Awarded Shares at a total cost (including related transaction costs) of HK$3,132,000 (2009: HK$2,344,000) (equivalent to RMB2,732,000 (2009: RMB2,064,000)) and had been deducted from shareholders' equity.

On 17 May 2010, a total of 110,000 shares ("Awarded Shares") were awarded to selected employees as approved by the Board. These Awarded Shares were vested immediately on 17 May 2010.

Share-based payment expense in respect of the Award Shares charged to the consolidated statement of comprehensive income amounted to HK$144,000 (equivalent to RMB126,000) for the year ended 31 December 2010 (2009: RMBNil).

26 SHARE CAPITAL *(continued)*

(b) Share award scheme

(i) Details of the Awarded Shares awarded and vested during 2010 are as follows:

Vesting date	Date of award	Number of Awarded Shares vested	Average fair value per share		Cost of related Awarded Shares	
			HK$	RMB	HK$'000	RMB'000
17 May 2010	17 May 2010	110,000	1.31	1.15	144	126

The fair value of the Awarded Shares on the award date is measured with reference to the market price of those Awarded Shares at the date of award. All the Awarded Shares were vested and transferred to Selected Employees as at 31 December 2010.

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

	2010		2009	
	Number of shares held	Value RMB'000	Number of shares held	Value RMB'000
At 1 January	1,820,000	2,064	—	—
Purchased during the period	2,360,000	2,732	1,820,000	2,064
Shares vested during the period	(110,000)	(126)	—	—
At 31 December	4,070,000	4,670	1,820,000	2,064

27 RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009		58	—	55	(866)	(753)
Changes in equity for 2009:						
Cancellation of shares	26(a)(i)	(58)	—	—	—	(58)
Issuance of new shares	26(a)(i) & (ii)	62	—	—	—	62
Issuance of new shares	26(a)(iii)	16	—	—	—	16
Capitalisation issue	26(a)(iv)	2,572	(2,572)	—	—	—
Shares issued in connection with the Listing	26(a)(v)	881	86,410	—	—	87,291
Loss for the year		—	—	—	(3,212)	(3,212)
Total comprehensive income for the year		—	—	—	(3,212)	(3,212)
At 31 December 2009 and 1 January 2010		3,531	83,838	55	(4,078)	83,346
Changes in equity for 2010:						
Issuance of new shares	26(a)(vi)	144	18,310	—	—	18,454
Loss for the year		—	—	—	(4,614)	(4,614)
Other comprehensive income		—	—	(2,775)	—	(2,775)
Total comprehensive income for the year		—	—	(2,775)	(4,614)	(7,389)
At 31 December 2010		3,675	102,148	(2,720)	(8,692)	94,411

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB4,614,000 (2009: RMB3,212,000) which has been dealt with in the financial statements of the Company.

27 RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

The following dividends were declared by the companies now comprising the Group to their then equity shareholders during the year.

	2010 RMB'000	2009 RMB'000
Dividend declared and paid during the year	—	81,999

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of Cayman Islands (the "Companies Law"). Under the Companies Law, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) PRC statutory reserves

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

– Statutory surplus reserve

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

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

27 RESERVES AND DIVIDENDS *(continued)*

(c) Nature and purpose of reserves *(continued)*

(ii) PRC statutory reserves *(continued)*

– Statutory general reserve

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

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

(iii) Exchange reserve

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

(iv) Other reserve

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

(d) Distributable reserves

The aggregate amounts of distributable reserves of the Company as at 31 December 2010 and 2009 were RMB93,456,000 and RMB79,760,000 respectively.

(e) Capital management

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

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

The Group monitors its capital structure on the basis of a gearing ratio, being the total borrowings divided by the total assets. As at 31 December 2010 and 2009, the gearing ratios of the Group were 5.5% and 7.5% respectively.

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

28 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2010 and 2009 not provided for in the consolidated financial statements were as follows:

	2010 RMB'000	2009 RMB'000
Contracted for	1,909	—

(b) Operating lease commitments

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2010 RMB'000	2009 RMB'000
Leases expiring:		
– Within 1 year	17,278	9,069
– After 1 year but within 5 years	31,155	20,249
	48,433	29,318

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

29 CONTINGENT LIABILITIES

At 31 December 2010, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank loans and credit facilities, and other loan of up to RMB16,180,000 (2009: RMB24,494,000). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was RMBNil (2009: RMBNil).

At 31 December 2010 and 2009, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

At 31 December 2010 and 2009, the Group had no other material contingent liabilities.

30 MATERIAL RELATED PARTY TRANSACTIONS

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

Name of parties	**Relationship with the Group**
Mr. Shao	Founder/shareholder/Director of the Group
Guangzhou Zhongde Consultation Co., Ltd.	A company owned by Mr. Shao and became an independent third party upon disposal in April 2009
Shanghai Senyin Information Technology Co., Ltd.	A company owned by Mr. Shao
Hangzhou Shili Cultural Media Co., Ltd.	A jointly controlled entity of the Group

In addition to the transactions and balances disclosed in notes 9, 10, 16, 17 and 22(b), the Group entered into the following related party transactions during the year.

	2010 RMB'000	2009 RMB'000
Non-recurring		
Management fee income (note (i))	—	1,342
Recurring		
Service fee income (note (ii))	—	1,000
Advertising agency fee income (note (iii))	1,020	—

Notes:

(i) This represented management fee income receivable from Shanghai Senyin Information Technology Co., Ltd. and Guangzhou Zhongde Consultation Co., Ltd. for a period of two years from 1 January 2008 to 31 December 2009. It was charged at a pre-determined amount mutually agreed, which was based on the market rates of the related services provided. On 29 July 2009, the Group entered into termination agreement with Shanghai Senyin Information Technology Co., Ltd. and Guangzhou Zhongde Consultation Co., Ltd. and the Group ceased to provide the management services to these related companies.

(ii) This represented service fee income receivable from Guangzhou Zhongde Consultation Co., Ltd. of which the major shareholder and Director of the Company then had equity interests from 1 January 2008 to April 2009. It was charged at the greater of a pre-determined percentage of the Company's revenue for the year or a minimum fee of RMB1 million per annum.

(iii) This represented advertising agency fee income receivable from a jointly controlled entity, Hangzhou Shili Cultural Media Co., Ltd.. It was charged at a pre-determined rate mutually agreed, which is based on the market rates of the related services provided.

Key management personnel receive compensation in the form of salaries, wages, housing and other allowances, benefits in kind and contributions to defined contribution plan. Details of key management personnel emoluments are disclosed in notes 9 and 10. Total remuneration is included in "Staff costs" as disclosed in note 5(b).

31 BUSINESS COMBINATION

On 26 November 2010, the Group entered into agreement with an independent third party ("the Acquisition Agreement") to acquire the business operation of "iWeekly" and its related assets (the "Acquired Business"). The principal activity of the Acquired Business is the provision of advertising services in the publication of iWeekly.

The acquisition represents an opportunity for the Group to develop appropriate digital publishing platform in order to re-utilise its content resources held by the Group from its past publications. The fair values of the identifiable assets and liabilities of the Acquired Business as at the date of the acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amount RMB'000	**Fair value recognised on acquisition** RMB'000
Fixed assets	174	174
Intangible assets	—	3,652
Net assets		3,826
Goodwill (note 14)		12,961
		16,787
Satisfied by:		
Purchase consideration:		
– Cash paid and net cash outflow in respect of the acquisition of the Acquired Business		9,000
– Contingent consideration (note 22(b)(ii))		7,787
		16,787

31 BUSINESS COMBINATION *(continued)*

The maximum aggregate consideration payable by the Group was up to RMB18,000,000. An initial cash consideration of RMB9,000,000 was settled as at 31 December 2010. The remaining consideration of up to RMB9,000,000 will be satisfied by cash in accordance with the terms of the Acquisition Agreement set out below:

(i) In the event that the advertising revenue derived from the Acquired Business for the six months ending 30 June 2011 is equal to or more than RMB3 million, a second instalment amount of RMB4.5 million will be payable by cash. In the event that the advertising revenue derived from the Acquired Business for the six months ending 30 June 2011 is below RMB3 million, the second instalment payment will be deferred to a later date at 31 December 2011 and is subject to satisfaction of condition (ii) below;

(ii) In the event that the profit after tax derived from the Acquired Business for the year ending 31 December 2011 is equal or more than RMB3 million, a third instalment amount of RMB4.5 million will be payable by cash. Should the profit after tax derived from the Acquired Business for the year ending 31 December 2011 falls below an amount of RMB3 million, the third instalment will be adjusted in proportion of the actual profit after tax to the pre-set profit after tax amount of RMB3 million;

(iii) In the event that both conditions (i) and (ii) above are not met, the aggregate amounts from the second and third instalments of RMB9 million are adjusted in proportion of the actual profit after tax to the pre-set profit after tax amount of RMB3 million; and

(iv) In the event that the consideration balance is negative, the Group is entitled to a refund of such amount from the independent third party.

The Group has included RMB7,787,000 as contingent consideration related to the second and third instalments, which represents its fair value at the date of acquisition. The fair value of the contingent consideration was calculated by using probability-weighted expected contingent consideration.

Since the date of the acquisition to 31 December 2010, the Acquired Business contributed turnover and profit after tax of RMB540,000 and RMB481,000 respectively. The Acquired Business commenced operations in September 2010. Had the above acquisition taken place at the beginning of the year, the Group's consolidated turnover and consolidated profit for the year would have been RMB457,693,000 (2009: RMB333,156,000) and RMB51,106,000 (2009:RMB31,186,000) respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2010.

Acquisition-related costs

The Group incurred acquisition-related costs of RMB329,000 relating to external legal fees and other professional fees. The legal and professional fees have been included in "administrative and other operating expenses" of the Group's consolidated statement of comprehensive income.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally allows a credit period of 30 to 150 days to its advertising and circulation customers (including the related party). Normally, the Group does not obtain collateral from its customers.

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

	2010	2009
From the Group's largest customer	15%	11%
From the Group's five largest customers	40%	40%

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Company as set out in note 29, the Group does not provide any guarantees which would expose the Group or the Company to credit risk.

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

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

(b) Liquidity risk

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

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

The Group

	At 31 December 2010					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Trade payables	23,777	23,777	23,777	—	—	—
Other payables and accruals	71,642	71,642	71,642	—	—	—
Amount due to a jointly controlled entity	766	766	766	—	—	—
Bank loans	22,950	22,950	8,301	1,638	5,630	7,381
	119,135	119,135	104,486	1,638	5,630	7,381

	At 31 December 2009					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Trade payables	35,350	35,350	35,350	—	—	—
Other payables and accruals	45,756	45,756	45,756	—	—	—
Bank loans	17,626	17,626	1,447	1,544	5,285	9,350
Other loan	6,868	6,868	6,868	—	—	—
	105,600	105,600	89,421	1,544	5,285	9,350

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

(b) Liquidity risk *(continued)*

The Company

	At 31 December 2010					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Payables and accruals	1,245	1,245	1,245	—	—	—
Bank loans	6,770	6,770	6,770	—	—	—
Amounts due to subsidiaries	4,874	4,874	4,874	—	—	—
	12,889	12,889	12,889	—	—	—

	At 31 December 2009					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable within 1 year or on demand RMB'000	Repayable more than 1 year but less than 2 years RMB'000	Repayable more than 2 years but less than 5 years RMB'000	Repayable more than 5 years RMB'000
Payables and accruals	2,872	2,872	2,872	—	—	—
Amounts due to subsidiaries	5,070	5,070	5,070	—	—	—
	7,942	7,942	7,942	—	—	—

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

(c) Interest rate risk

(i) Interest rate profile

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

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

The Group

	2010		2009	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Variable rate borrowing				
Bank loans	5.582	22,950	6.534	17,626
Variable rate deposits				
Deposits and cash	0.12	80,613	0.20	57,922

(ii) Sensitivity analysis

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's profit or loss for the years ended 31 December 2010 and 2009 and there is no impact on the Group's equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2009.

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

(d) Foreign currency risk

(i) Transactions risk

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

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

(ii) Exposure to currency risk

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

The Group

	2010	
	United States dollars USD'000	Hong Kong dollars HKD'000
Deposits and cash	—	12

	2009	
	United States dollars USD'000	Hong Kong dollars HKD'000
Deposits and cash	—	8,613
Other loan	(1,000)	—
	(1,000)	8,613

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

(d) Foreign currency risk *(continued)*

(iii) Sensitivity analysis

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

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States dollars	5%	—	5%	(343)
	(5)%	—	(5)%	343
Hong Kong dollars	5%	1	5%	379
	(5)%	(1)	(5)%	(379)

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

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. The analysis is performed on the same basis for 2009.

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

(e) Fair values

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2010 and 2009.

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

33 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Note 32 contains information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment of trade receivables

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

(ii) Assessment of impairment of non-current assets

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

(iii) Depreciation and amortisation

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

33 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Key sources of estimation uncertainty *(continued)*

(iv) Income taxes

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

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

(v) Determination of contingent consideration and fair values of identifiable intangible assets arising from the business combination

As disclosed in note 31, the Group acquired iWeekly operation during the year. Accordingly to the Acquisition Agreement, other than the initial purchase consideration of RMB9,000,000, the remaining purchase consideration is payable by the Group (referred to hereinafter as "Contingent Consideration") and the amount of each instalments is determined with reference to the revenue for the six months ending 30 June 2011 and audited net profit for the year ending 31 December 2011.

In accordance with IFRS 3 "Business combination", the directors of the Company are required to make best estimates to determine the present value of Contingent Consideration of the acquisition at the initial acquisition date. Based on the Group's assessment, the total purchase consideration for the acquisition of iWeekly would be approximately RMB16,787,000, of which the present value of the Contingent Consideration as at the acquisition date amounted to RMB7,787,000 and an amount of RMB9,000,000 was paid.

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

In accordance with the above assessment, goodwill of RMB12,961,000 was determined to be arising from the acquisition at the acquisition date (note 31).

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR

Up to the date of issue of the financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group:

IFRSs (Amendments)[(1)]	Improvements to IFRSs 2010
Revised IAS 24[(2)]	Related party disclosures
IFRS 9[(3)]	Financial instruments

(1) Effective for annual periods beginning on or after 1 January 2011 except the amendments to revised IFRS 3 (2008), "Business combinations" and amended IAS 27 (2008) "Consolidated and separate financial statements", which are effective for annual periods beginning 1 July 2010.
(2) Effective for annual periods beginning on or after 1 January 2011.
(3) Effective for annual periods beginning on or after 1 January 2013.

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

35 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

(a) Subsidiaries

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

Name of subsidiaries	Note	Place and date of incorporation/ establishment and operations	Issued and fully paid up share capital	Attributable equity interest held by the Company 2010	2009	Principal activities
Directly held:						
e-Starship Limited		British Virgin Islands 18 May 2000	US$1	100%	100%	Investment holding
Indirectly held:						
City Howwhy Limited		Hong Kong 15 May 2000	HK$2	100%	100%	Publication of magazine in Hong Kong
Modern Media Company Limited		Hong Kong 6 May 1998	HK$1,000,000	100%	100%	Provision of advertising agency services
Zhuhai Modern Zhimei Culture Media Co., Ltd.* (珠海現代致美文化傳播有限公司)	(ii)	The PRC 23 October 2006	RMB8,950,000	100%	100%	Provision of advertising agency services
Modern Media (Zhuhai) Technology Co., Ltd.* (現代傳播(珠海)科技有限公司)	(i) & (ii)	The PRC 13 April 2006	HK$35,000,000	100%	100%	Research and development, production and sale of software and after-sale service of software, provision of consultancy service on project planning and social economic information and enterprise management and enterprise image planning, provision of advertising agency services
Yazhimei Information Consultation (Shenzhen) Co., Ltd.* (雅致美信息諮詢(深圳)有限公司)	(i)	The PRC 16 August 2007	HK$2,000,000	100%	100%	Provision of management and consultation services

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

(a) Subsidiaries *(continued)*

Name of subsidiaries	Note	Place and date of incorporation/ establishment and operations	Issued and fully paid up share capital	Attributable equity interest held by the Company 2010	2009	Principal activities
Indirectly held: *(continued)*						
Guangzhou Modern Information Media Co., Ltd.* (廣州現代資訊傳播有限公司)	(ii)	The PRC 3 September 1999	RMB11,000,000	100%	100%	Publication of magazine in the PRC, provision of advertising agency services, retail sales of imported books and planning of literary arts activities and exhibitions
Shanghai Yage Advertising Co., Ltd.* (上海雅格廣告有限公司)	(ii)	The PRC 17 June 2002	RMB500,000	100%	100%	Provision of advertising agency services
Beijing Modern Yage Advertising Co., Ltd.* (北京現代雅格廣告有限公司)	(ii)	The PRC 15 January 2002	RMB500,000	100%	100%	Provision of advertising agency services and organising cultural exchange activities and exhibitions
Shenzhen Yage Zhimei Information Media Co., Ltd.* (深圳市雅格致美資訊傳播有限公司)	(ii)	The PRC 8 June 2005	RMB2,000,000	100%	100%	Provision of advertising agency services
Shanghai Gezhi Advertising Co., Ltd.* (上海格致廣告有限公司)	(ii)	The PRC 16 January 2006	RMB500,000	100%	100%	Provision of advertising agency services and business information consultation services
Beijing Yage Zhimei Advertising Media Co., Ltd.* (北京雅格致美廣告傳播有限公司)	(ii)	The PRC 29 March 2006	RMB500,000	100%	100%	Provision of advertising agency services and organising cultural exchange activities and exhibitions

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

(a) Subsidiaries *(continued)*

Name of subsidiaries	Note	Place and date of incorporation/ establishment and operations	Issued and fully paid up share capital	Attributable equity interest held by the Company 2010	2009	Principal activities
Indirectly held: *(continued)*						
Guangzhou Yage Advertising Co., Ltd.* （廣州雅格廣告有限公司）	(ii)	The PRC 25 February 2004	RMB500,000	100%	100%	Design of image, planning of enterprise ceremony and provision of design, production and agency services
Guangzhou Modern Books Co., Ltd.* （廣州現代圖書有限公司）	(ii)	The PRC 24 November 2004	RMB3,010,000	100%	100%	Publication of magazine in the PRC, design and selling of advertising spaces
Zhuhai Yinhu Advertising Co., Ltd.* （珠海市銀弧廣告有限公司）	(ii)	The PRC 30 March 2001	RMB500,000	100%	100%	Provision of advertising agency services

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

Notes:

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

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

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

(a) Subsidiaries *(continued)*

Historically, PRC rules and regulations restricted foreign ownership of companies in certain industries. The Group has been conducting its operations in these industries through the PRC Operational Entities which are ultimately wholly-owned by Mr. Shao.

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

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

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

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

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

(b) Controlled special purpose entity

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

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

As the Company has the power to govern the financial and operating policies of the Modern Media Employee Share Trust and can derive benefits from the contributions of the employees who have been awarded the shares of the Company (the "Awarded Shares") through their continued employment with the Group, the Group is required to consolidate the Modern Media Employee Share Trust.

As at 31 December 2010, the Company had contributed RMB8,805,000 (2009: RMB8,805,000) in the Modern Media Employee Share Trust for shares not yet vested and the amount was recorded as "Contributions to Modern Media Employee Share Trust" in the Company's statement of financial position.

Financial Summary

RESULTS

	For the year ended 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	456,255	333,156	347,825	281,085	231,302
Profit before taxation	71,351	38,339	57,003	49,560	41,436
Income tax	(18,599)	(7,153)	(11,985)	(7,760)	(5,486)
Profit for the year	52,752	31,186	45,018	41,800	35,950

ASSETS AND LIABILITIES

	At 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Total assets	415,248	327,782	301,429	229,824	146,159
Total liabilities	(148,565)	(128,485)	(136,353)	(106,797)	(65,216)
Total equity	266,683	199,297	165,076	123,027	80,943

Notes:

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

2. The consolidated financial statements for the years ended 31 December 2006, 2007, 2008 and 2009 have been prepared using the merger basis of accounting as if the Group had always been in existence. The net assets of the combining companies are consolidated using the existing book values form the controlling party's perspective. The figures for the three years ended 31 December 2006, 2007 and 2008 have been extracted from the Prospectus.

現代傳播
Modern Media

現代傳播集團 MODERN MEDIA GROUP

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