Stock Code：72

MODERN MEDIA HOLDINGS LIMITED ANNUAL REPORT 2011

現代傳播控股有限公司2011年年報

As the management guru Peter Drucker mentioned in his book"Managing in the Next Society", the challenge of our next generation will be focused on how we understand 4 is and 1 K.

i^4K

正如管理大師杜拉克在他的《管理未來社會》一書中清楚指出，未來社會中的最大挑戰在於我們如何理解四個i一個K。

iNNOVATION
創新

iNFORMATION
資訊化

iNTERNATIONALIZATION
國際化

iNTEGRATION
價值整合

KNOWLEDGE WORKERS
知識工作者

Contents

iNNOVATION

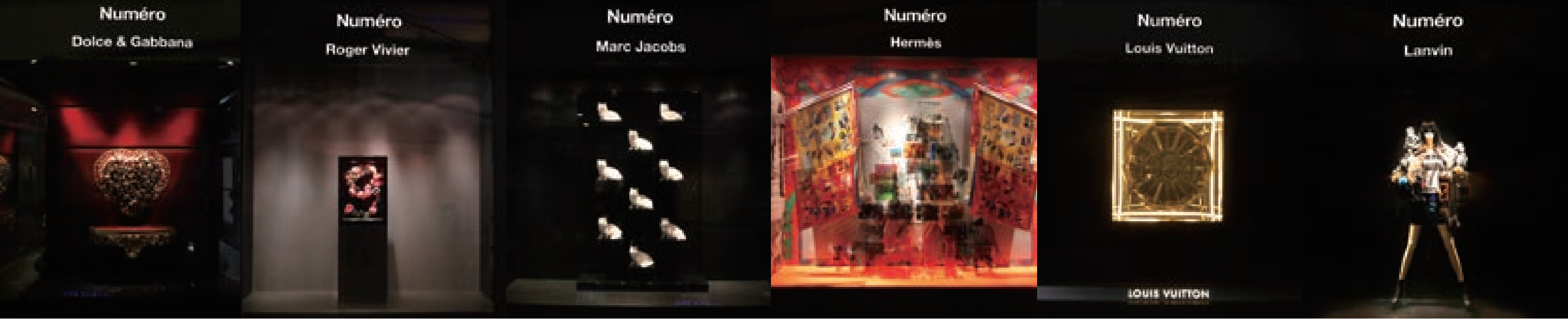
To create the best contents for readers and
to create sustainable value for shareholders.

為讀者創作最好的內容，
為股東創造最大的價值。

Produces high quality international contents, captures the Chinese elites and provides an one-stop marketing solution for top international and national brands.

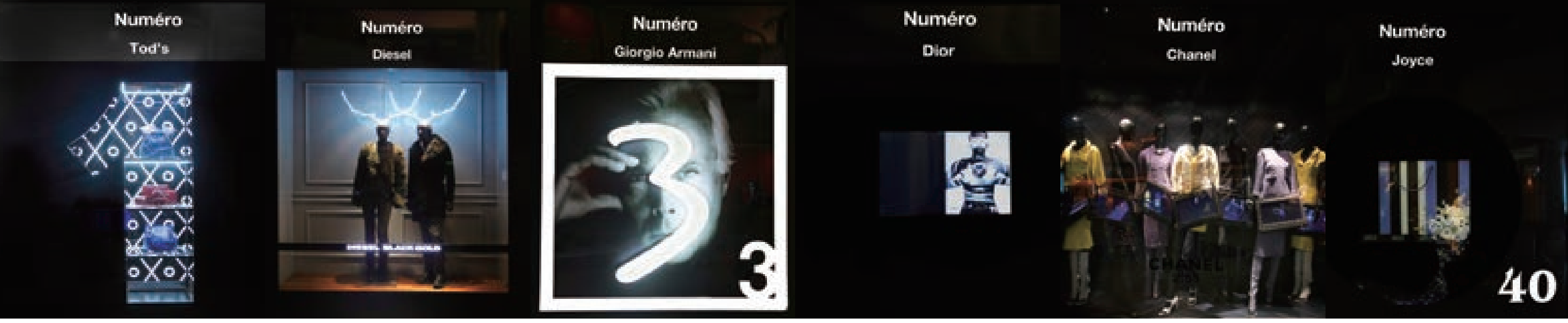
iNFORMATION

為中國精英階層制作高質量的國際化內容，
為國際及本土一線品牌提供一站式市場推廣方案。

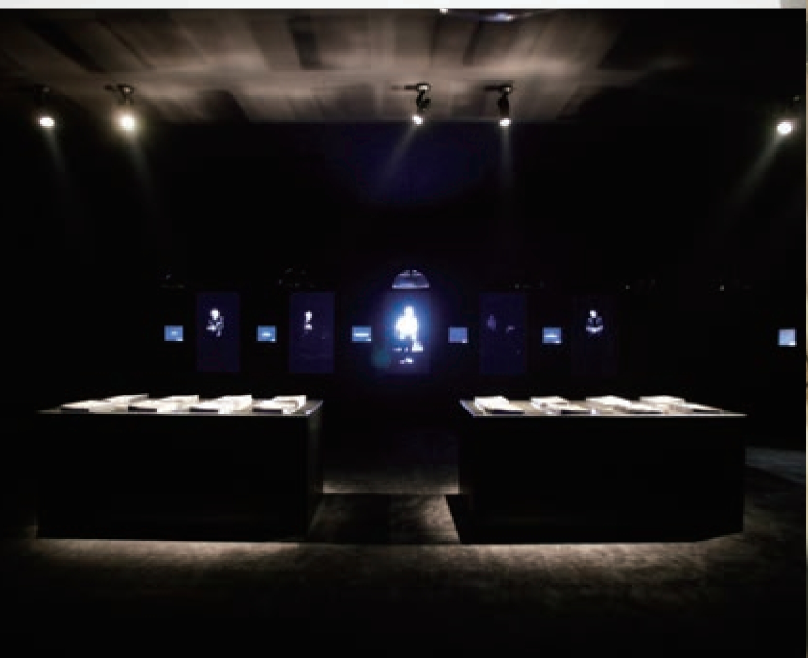


iNTERNATIONALIZATION

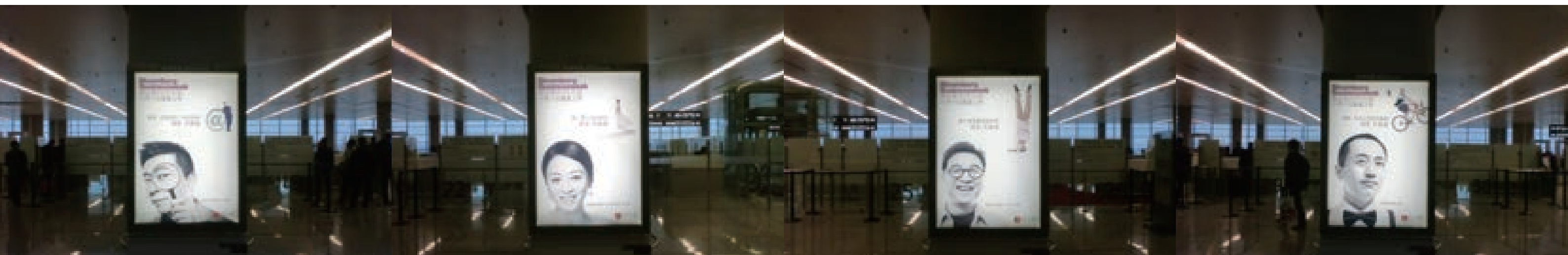
Based on the 2010 Paris "Le Bon Marché Fashion Numéro" exhibition, inspired from Numéro signature column "Idea Box", installation adapted to the Chinese market specifically.



源自2010年巴黎 "Le Bon Marche Fashion Numéro" 展覽，
啟發自 "Numéro" 主欄目的"Idea Box" 在中國大陸重要城市展出。



Bloomberg Businessweek/China's launch marketing campaign was all over China.



《商業週刊/中文版》在中國各地的上市市場活動。

A leading integrated media enterprise owning a multimedia platform comprising 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、數字媒體及電視媒體等多媒體平台。

iNTEGRATION

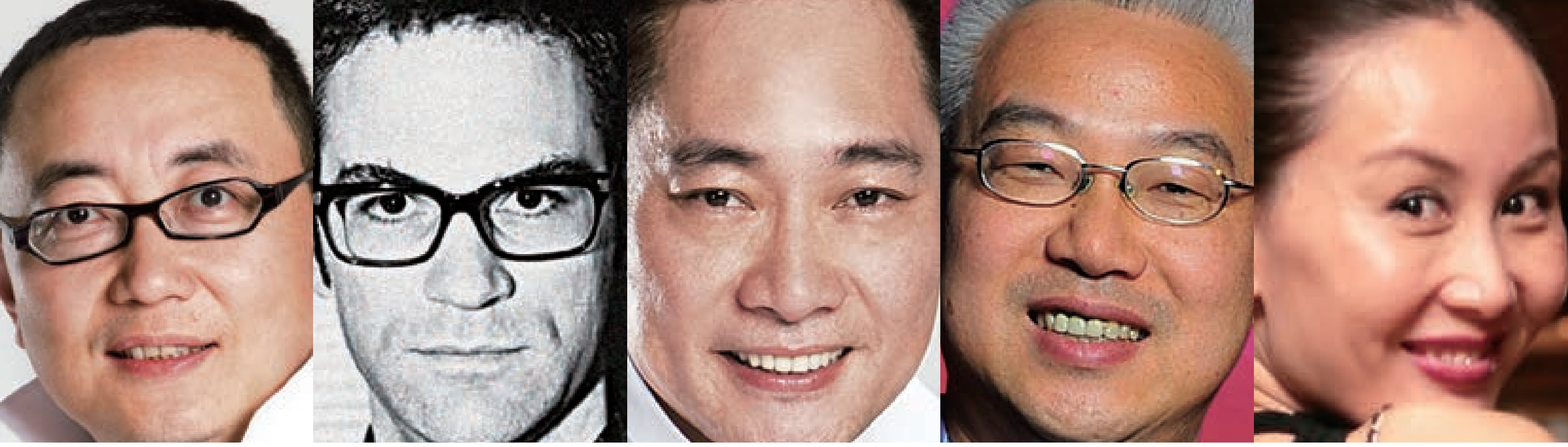
1

iWeekly - the most influencial Chinese media iOS APP with over 4 million readers.

iWeekly - 最具影響力的中文媒體應用程式，擁有超過400萬讀者。

***MODERN TV** - our own TV studio has been set up in Shanghai. TV programs production has begun in May 2011 and broadcasted through iOS APP in China, TV channels and video websites.*

MODERN TV - 在上海建立自設的影視中心。自2011年5月開始製作節目並在中國大陸地區的應用程式、電視頻道及視頻網站播放。

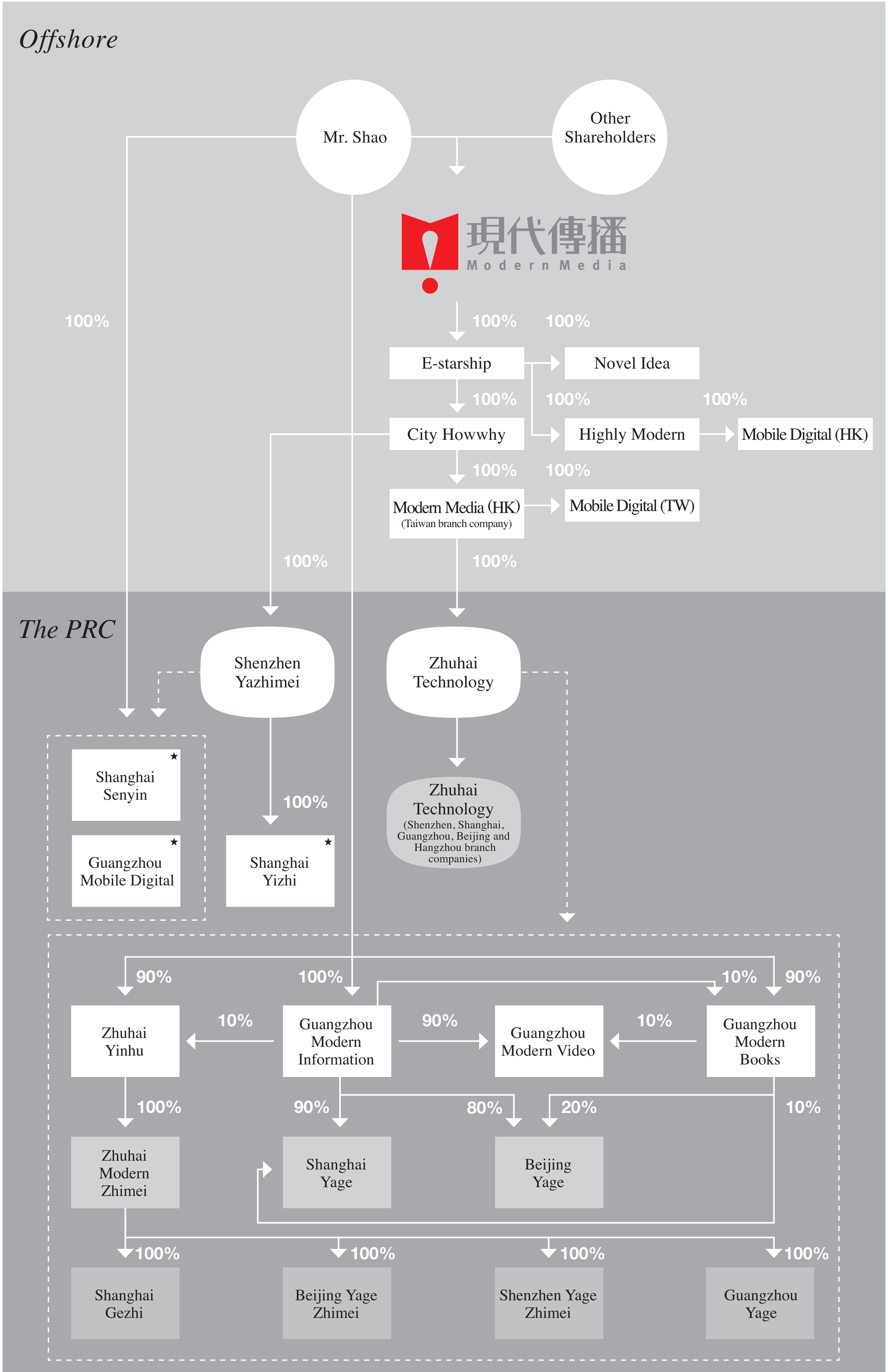


KNOWLEDGE WORKERS

Our 973 Knowledge Workers from all over the world are the most valuable assets of our company.

我們973名來自世界各地的知識工作者是公司最有價值的資產。

Corporate Structure



* Companies acquired or set up after 31 December 2011.
"———"denotes direct legal and beneficial ownership in the equity interest and
"- - - -" denotes control through a series of contractual relationship.

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

Mr. Mao Xiaofeng *(Appointed on 29 February 2012)*

AUDIT COMMITTEE

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

Mr. Jiang Nanchun, Mr. Wang Shi and Mr. Mao Xiaofeng

REMUNERATION COMMITTEE

Mr. Mao Xiaofeng *(Chairman)*

Mr. Wong Shing Fat, Mr. Jiang Nanchun and

Mr. Au-Yeung Kwong Wah

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

Board of Directors
董事會

執行董事
崔劍鋒

Cui Jianfeng
Executive Director

執行董事
黃承發

Wong Shing Fat
Executive Director

主席
邵忠

Shao Zhong
Chairman

執行董事
厲劍

Li Jian
Executive Director

執行董事
莫峻皓

Mok Chun Ho, Neil
Executive Director

Corporate Information *(continued)*

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
Guangdong Province, the PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1101-1103, 11/F
1063 King's Road, Quarry Bay
Hong Kong

PRINCIPAL BANKERS IN HONG KONG

Hang Seng 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)

Corporate Information *(continued)*

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

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 2011.

In 2011, the global economy experienced ups and downs, and its recovery process slowed down due to the European debt crisis, ongoing weak U.S. economy, political turmoil in the Middle East and North Africa and major earthquake in north-eastern Japan. As the power engine of the global economy rebound, the domestic demand in China had been continuously increasing, even if its macro control and tight monetary policy were still in place during the year with the inflation index standing at a high level. Its economy still achieved a 9.2% year-on-year growth in gross domestic product. Amid such favourable economic environment, the media industry in China continued to develop in a sound and orderly manner while the advertising market also recorded a healthy growth accordingly.

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 to actively develop a diversified media business. In addition to the core printing media business which maintained uptrend, digital media business was also well received in the market and performed well. TV media business progressed smoothly. Thanks to the successful promotion of a diversified media business development strategy, the Group achieved impressive results. The Group's turnover significantly increased to approximately RMB586,186,000 (2010: approximately RMB456,255,000). Profit attributable to equity shareholders of the Company significantly increased to approximately RMB60,278,000 (2010: approximately RMB52,752,000). Earnings per share amounted to RMB0.14 (2010: RMB0.13).

As a leading integrated media enterprise in the People's Republic of China (the "PRC"), the Company enjoys a diversified portfolio of products and service. For the core magazine business, *Modern Weekly*, the flagship magazine (being the major source of revenue of the Group) continued its strong growth and firmly commanded its leading position in the market of lifestyle weekly magazines in the PRC. During the year, *Modern Weekly* also strengthened its contents continuously, and even reached an agreement with *The Economist* in the second half of the year to obtain the right and license to publish its contents, in addition to successfully publishing *Turning Points* 2011 with the New York Times on a cooperative basis. Not only the readability of *Modern Weekly* but also the Group's advertising income was enhanced through such cooperation, thus further signifying that the quality of the Group's publications was recognized by reputable publishers globally.

Regarded by the Group as one of its business growth drivers, *U+ Weekly* has been widely received since its launch at the end of 2008 and continued to be a women lifestyle weekly magazine with the largest circulation volume in the PRC for eleven consecutive quarters, with its significant market position. During the year, in partnership with *The International Herald Tribune*, *U+ Weekly* held a series of activities entitled *2011 "Selection of U+ Family"* in 12 Chinese cities, which received wide media reporting and strong feedback.

Modern Media, adhering to the tenet of "spreading the global perspective and searching for a modern China", kept on exploring the possibility to cooperate with more international magazine titles for the year. During the year, the Group was authorized to publish the simplified Chinese edition of *Bloomberg Businessweek*, which not only contributed to the Group's development in the field of news journal on the Chinese business, but also helped enhance Modern Media's reputation in China's publishing circle. The *Bloomberg Businessweek/China* received good response since its launch in November, beyond expectation of the Group both in sales volume and advertising placements.

As the information transmitted over the internet is fast growing and changing daily, the Group has been proactively developing its multimedia platform in addition to its magazine business. In just one year of development, the Group's digital media business has achieved admirable results. The electronic edition of *Modern Weekly* published on Apple Computer Inc.'s iPhone and iPad platforms, after its launch in December 2010, has immediately become the most popular downloads among the Chinese media applications on these two platforms. During the year under review, *iWeekly* was consistently recognized by subscribers and advertisers, generating advertising income for the year of RMB15.3 million. In light of the unprecedented success of *iWeekly*, the Group also capitalized on the opportunity to launch its second application, namely *iWeekly Calendar*, which presented users pictures of the day to refresh their horizon. Over 100,000 users downloaded this application in the first four weeks after its launch, reflecting its remarkable popularity. In order to further expand the digital media market, the Group acquired 20% shareholdings in Rakuraku Technologies Inc. ("RTI") during the year. We believe that this investment in RTI will help the Group strengthen its access to the world-class technology, gain expertise in mobile applications, as well as reinvent the way it works with content and mobile applications, create new business opportunities in new media area, and quicken the pace of development of the rapidly growing digital media market.

In light of the huge potential of the advertisement market for China's domestic TV media platform, with a breakthrough of business during this year, the Group took the first step towards the development of TV media. In May 2011, the Group first launched a lifestyle TV program, namely *Style-Weekend* series, on TV channels in Hangzhou, Wenzhou and Fujian Province, etc., as well as on Youku.com, the largest video website in China. *Style-Weekend* received a good reputation, but it was just a beginning of the business. The Group will aim to improve the influence of this program via websites, so as to get in touch with more elite audience in PRC cities, and also go on optimizing the programming strategy and content, controlling costs and expenses, to turn it into the third driving force of the Group.

The Group expects that the business environment will still be full of challenge in 2012. The development prospect of global economy still remained gloomy with slow pace of U.S. economy recovery and continuously worsening of European debt crisis. Consequently, the demand for the overseas market would hardly be fully recovered in the coming year. On the other hand, being hampered by the downside risk of the international market, the domestic market also has to face the problems of inflation and tightening of policy in China at the same time. However, it is expected the Chinese economy will continue to maintain a long-term stable growth, while the huge domestic demand, restructuring and low real interest rate will conducive to a gradual soft landing in China in 2012. Furthermore, with the steady implementation of "Twelfth Five-year Plan", it is expected that the economy in 2012 will continuously and stably grow, and there would be room for continuous growth in the advertising industry.

With the gradually increasing number of Chinese middle-class, the constantly growing appeal to luxury products will also be a growth sector for the Group. In the coming year, the Group will consolidate its core revenue sources, and strengthen the development of its magazine business. Focusing on *Modern Weekly*, *U+ Weekly* and *Bloomberg Businessweek/China*, it will be dedicated to developing more quality regional publications, deepening its nationwide influence and competitive strength.

As the popularity of smartphones has been a general trend, the Group predicts that the mobile digital media will have an impact on the science and technology innovation. In light of this, the Group will shift to focus on developing the mobile digital media business in the coming year. In addition to making a great change for *iWeekly*, the Group also will launch a series of applications for different purposes and users. Along with the increase of market demand, the Group expects that the mobile digital media business will relatively grow rapidly and bring about important potential contribution to revenue and profit.

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

Shao Zhong
Chairman

29 February 2012

Management Discussion and Analysis

RESULT SUMMARY

In 2011, the Group continued its momentum in both financial performance and business development. Although the prolonged debt crisis in the Euro Zone and the slow recovery of the U.S. economy have made the world apprehensive about the possibility of another recession, the economic climate in the People's Republic of China ("PRC") remained favorable during 2011, and this was reflected by the satisfactory full-year results of the Group's operations. The Group's core print media advertising business continued on a healthy growth path, while its mobile digital media and TV business performed satisfactorily in 2011. For 2011, the Group's turnover amounted to approximately RMB586.2 million (2010: RMB456.3 million), which represented a sharp increase of 28.5% compared with that for year 2010. This is attributable to the stable performance of the Group's leading media products, as well as a generally healthy advertising market in the PRC. The Group's two flagship magazines, the "Modern Weekly" and "U+ Weekly" recorded beyond-industry-average growth, while a new bi-weekly magazine, the "Bloomberg Businessweek/China" was launched by the end of 2011. Revenue of the "iWeekly", the Group's first mobile application, exceeded RMB15 million in its first full-year operation during 2011. Although being affected by the launch of new projects, such as "Bloomberg Businessweek/China", and TV programs, the Group recorded a net profit amounting to approximately RMB60.3 million for the year 2011 (2010: RMB52.8 million), which represented a significant growth of 14.3% as compared with the year 2010. The directors of the Company (the "Directors") are satisfied with the financial performance and the strategic milestones achieved by the Group.

(A) BUSINESS REVIEW

2011 was a fruitful and critical year for the Group. The Group made its debut in and extended its footprints to the multi-media arena from print media. Strategically, the Group organised its business into three business units, namely print media, mobile digital media, and television. During 2011, additional revenues and new entities were recorded and created in these new business units, while print media continued its strong growth.

(i) Print Media

Print media, more precisely magazine publication, has been the Group's core business by far. The Group is one of the leading media groups in the PRC and Hong Kong, operating two national weekly, one national bi-weekly, two local weekly, five monthly magazines and two bi-monthly magazines in the PRC, and one monthly magazine in Hong Kong, covering the subjects of lifestyle, news, finance, culture, art, health etc. Revenues of print media were mainly attributable to advertising and circulation revenues. The Group achieved strong and beyond expectation performance in both aspects.

(1) Advertising

In 2011, the PRC's real gross domestic product grew by 9.2% and its economy out-performed most countries in the world. Even so, concerns have been steadily growing about the likely impact of the accelerating inflation and sluggish property market. However, the negative factors did not create any material impact on the advertising market. Both Zenith Optimedia and CTR Market Research Co., Ltd estimated that the advertising market remained robust in 2011, having continued its momentum to record about 4.5% year-on-year increase when compared with that of 2010. During 2011, advertising revenue of the Group was approximately RMB578.0 million (2010: RMB451.0 million), representing a sharp increase of approximately 28.2% on a yearly basis, and outperforming the market average.

"Modern Weekly", being the Group's flagship weekly magazine, maintained its leading position in the market. It kept on with its strong growth during the year and achieved excellent results. According to the surveys by Admango Limited, "Modern Weekly" continuously ranked No. 1 in the advertising revenue within the category of lifestyle weekly magazines in the PRC. In the year 2011, "Modern Weekly" enjoyed a buoyant advertising environment and achieved a 15.6% increase in its advertising revenue when compared with that of last year. The significant increment in revenue, coupled with effective control on the printing and other operating costs, led to a remarkable increase in operating profits for "Modern Weekly". Furthermore, "Modern Weekly" also achieved new progress in international cooperation. On top of the "Turning Point" annual special jointly published with the New York Times, "Modern Weekly" entered into another licensing cooperation deal with The Economist during year 2011. Since November. 2011, "Modern Weekly" has been publishing subject matter articles of The Economist in its "Business" section. In 2012, "Modern Weekly" will publish quarterly special reports licensed from The Economist. These international cooperation projects will further enhance the content quality of the magazine and eventually leads to greater commercial value of its advertising spaces.

"U+ Weekly", being one of the most popular women's lifestyle weekly magazines in the PRC, continued to perform well in last year. Its advertising revenue recorded a 50.6% year-on-year growth when compared with that of 2010. According to market survey published by Beijing Kai Yuan Circulation Research Company, "U+ Weekly" has been ranked No. 1 in circulation among all women lifestyle magazines in the PRC for 11 consecutive quarters since its launch. In the fourth quarter of 2011, "U+ Weekly", partnered with the International Tribute Herald, launched a series of marketing campaigns, namely the "Selection of U+ Family" over 12 cities in the PRC. The series of marketing events attracted widespread attention and received positive feedbacks from many readers.

In November 2011, the Group launched the Chinese (simplified Characters) edition of "Bloomberg Businessweek", which was one of the most renowned and popular business magazines in the world. The launch of "Bloomberg Businessweek/China" bi-weekly magazine was the most important print media project of the Group in the year, because it helped sharpen the Group's competitive edge in the fast-growing business publishing segment. Supported by a grand marketing campaign, the new magazine received positive responses from both advertisers and readers. Both advertising and circulation revenues of the first few issues exceeded the expectations of the management. The Directors are expecting that this new magazine title will become a new profit engine of the print media business, following the "Modern Weekly" and "U+ Weekly".

Among other monthly magazines operated by the Group in the PRC and Hong Kong, the advertising revenues were greatly increased when compared with that of last year. Such portfolio of magazines is important for the Group's marketing strategy for attracting the segmented readers and advertisers.

The Group cooperated with some local partners to issue two local weekly lifestyle magazines in Hangzhou and Chongqing. Both magazines pressed forward with improvement in their operating performance during the year under review. Those publications were successful in arousing the readers' attention and attained a moderate growth in advertising revenue in these two cities. In the coming year, the management will continue to review the cost structure and fine-tune the editorial content in order to achieve an optimal operating result.

(2) Circulation

The circulation revenue in 2011 achieved a year-on-year growth of approximately 19.1%. The Directors attribute the growth to three major factors. Firstly, the Group's magazine portfolio was expanded continuously during 2011. New magazines, namely "Bloomberg Businessweek/China" and "Chutzpah!" were launched in 2011. Secondly, the Group managed to raise the retail cover price of U+ Weekly from RMB3 to RMB5 while sustaining the distribution volume. Finally, with the emerging middle-class population in the "Tier 2" cities, the Group continuously expanded its distribution network and increased the circulation volume in more PRC cities. Strong circulation growth again proved the Group's leading position in magazine publication industry.

(ii) Mobile Digital Media

Mobile digital media is a potential star of the Group's business. Following the prevalence of mobile devices, the Group's mobile digital media business unit became a pioneer in the industry. During 2011, the Group's mobile digital media business has made satisfactory achievements in terms of operating results, product development, and resources development.

In 2010, the Group acquired a Chinese media application, "iWeekly", which was the most popular Chinese media application at the time. During the year, "iWeekly" continuously attracted new users. The number of users reached over four million by the end of 2011 and remained No. 1 position among all Chinese media applications. The popularity of "iWeekly" among users also aroused the interest of advertisers to experience this new channel of market promotions. The advertising revenue of "iWeekly" in 2011 reached RMB15.3 million (2010: RMB0.5 million), and became one of the market leaders among all Chinese media applications in "iPhone" and "iPad". Besides financial achievements, "iWeekly" also undergone major technical upgrades during 2011. For instance, new version of "iWeekly" adopting the recently released iOS 5 system was published. Video features were added into the product. With continuous upgrading in contents and user experiences, the Directors are optimistic that "iWeekly" will sustain its leading position and achieve significant advertising revenue growth in the coming year.

Following the success of "iWeekly", the second application of the business unit, the "iWeekly Calendar", was launched in December 2011. Within four weeks since its launch, the new application had been downloaded by more than 100,000 users. As soon as "iWeekly Calendar" was announced, the application earned an enthusiastic official recommendation from the App Store. The application provides users with a globe-spanning field of vision and uninterrupted, year-round desktop scenery. iWeekly Calendar also offers convenient desk-calendar and agenda functions, as well as multiple viewing modes, daily horoscopes, private notes, memoranda, and other features optimally configured to assist users in effectively arranging their affairs. The application's diverse features greatly increase its open rate and usage time. This application has provided the Group with a strong and stable new media advertising platform and is projected to yield increasing opportunities for advertising revenue.

In February 2012, the Group acquired 20% shareholding of Rakuraku Technologies Inc. ("RTI") for a consideration of JPY 45,000,000. RTI is a Japanese company which is specialized in providing leading digital publishing solutions for mobile devices. The technical team of RTI is well-experienced in developing several successful applications which were elected as one of the "top seller" and "most popular" in " iTunes Rewind 2009". The Directors firmly believe the strategic shareholding in RTI will further consolidate the Group's technical strength and access to world-class technology and vast expertise in mobile applications.

(iii) Television

Content is always of utmost importance to a media company. The recent rise of video content prices speculated by the video websites has once again proven this golden rule.

As one of the comprehensive media groups, it is crucial for the Group to develop its own competence in producing video contents. The Group had accomplished the first step in establishing the competence during 2011 with the objectives of creating video digital platform and as well as the TV program syndication network. Preparing for over 10 months, five programs of Modern TV were launched at the end of May 2011. During 2011, self-produced, high quality lifestyle TV programs were broadcasted in regional TV channels, such as Hangzhou, Wenzhou, Fujian. etc. The lifestyle programs were also broadcasted at "iWeekly" -iTV application , YouKu, a Web TV, etc that arose enormous awareness and well received by elite audiences.

Furthermore, famous TV stations HKTVB and TVB International have also purchased our lifestyle programs and in Hong Kong, Singapore, Malaysia, Australia and Europe. This is a further proof that our programs are of high quality and well accepted by International TV stations.

However, due to the fact that the traditional positioning of TV media as a mass media viewed by the advertisers while our high quality TV program are targeted to elite groups, we found it difficult to convince advertisers to support the TV syndication platform at this stage after seven months trial. As a result, high production cost caused losses from the TV business unit and led to dilution in the Group’s overall operating profit.

In 2012, we re-define our strategies to focus on television broadcasting mainly at elite media platforms such as iWeekly App (iTV), and web TV including YouKu, QiYi and PPTV together with In-flight video (both business and economy class) in order to capture elite groups and attract middle to high-end advertisers. We will continue to improve the financial performance of this business unit through the optimization of production cost, operating costs and stop producing programs with low commercial value. Simultaneously, the team will also focus on generating revenue from different digital media applications and special creative program production that is tailor-made for our advertisers.

The Directors are confident that the TV business is likely to break-even or even turn profitable in the coming years.

(B) BUSINESS OUTLOOK

(i) Steady and sustainable growth of print media

The outlook for the global economy in 2012 is clear, but it is not pretty: possible recession in Europe, minimal growth at best in the United States, a slowdown in China and in most emerging-market economies. At this point, a euro-zone recession is uncertain but it is imminent. While its impact cannot be predicted, a continuous credit crunch, sovereign-debt problems and fiscal austerity imply a serious downturn over the European countries. The Directors are glad that the Group’s operation mainly stays in the PRC where it will act as the world’s economic locomotive with a forecasted GDP growth of 8.3% in 2012. Further, the GDP growth model of the PRC will change from export-driven to domestic consumption-driven. Particularly, the rise of wealthy middle class in the urban cities will promote a lifestyle of consumerism of luxury and branded goods. Thus, the Directors believe that the Group's media platform will be largely benefited from this trend, and are cautiously optimistic about the Group’s core print media business. It is expected that with its unshakeable market leading positions, “Modern Weekly” shall sustain above-average growth in the advertising revenue, and further improve its profit margin as a mature magazine title. Meanwhile, “U+ Weekly” and “Bloomberg Businessweek/China” will maintain their fast growth momentum since they are still in the early stages of their product life-cycle. These three weekly magazines will become the backbones to lead the future business growth of the Group's print media business. Meanwhile, the Group will take appropriate measures to improve the profitability in print media, including initiatives to rationalise the magazine portfolio, and to control operating costs etc.

(ii) **Building a leading mobile media platform**

The Directors firmly believe that mobile technology is a new wave of technology revolution changing the lifestyles of people. As declared by Chuck Martin, a famous business and technology strategist, the future of marketing competition locks up at the "3rd Screen", which is the screen of mobile device, while he defined TV as the "1st Screen" and PC as the "2nd Screen". Actively responding to the market trends, the Group has set mobile media as its first priority for future business strategies. Following the success of "iWeekly", the Group is aiming to expand the mobile digital media business from coupling of stand-alone application products into an integrated platform, providing information, service, and on-line retail for both readers and advertisers. In order to achieve the goal, the Group will focus on developing four core competence, namely technology, content, client, video, in the future. Firstly, it will utilize the strategic shareholding in the Rakuraku Technology Inc. ("RTI") to develop mobile application technical centres in both China and Japan. The technical centres will be responsible for developing new application products, as well as consistently upgrading existing products, delivering state-of-the-art reading experience to users. Secondly, besides leveraging on the Group's print media contents, the Group is planning to explore more content cooperation from third party sources both internationally and domestically. By doing so, internal competition between print and mobile digital media may be reduced. Meanwhile, broader content sources could allow the Group to launch new application products with new subjects from its print media titles. Thirdly, other than merely offering advertising space to advertisers, the Group is going to participate in more roles on the retail value-chain of its advertising clients, including promotion, shopping guidance, e-commerce, post-sales service etc. Finally, videoized contents are crucial to attract readers in mobile devices. The Group will leverage on its video production capabilities of the Group's TV division in producing short-films to enhance attractiveness of both our on-line contents and the promotional contents of its advertisers. Supported by these competences, series of new applications products are planned to be launched in 2012, including an on-line newsstand for subscription reading, a financial news application etc. More applications with various subjects are proposed for the following years. Meanwhile, the Group has planned a major overhaul of the design and features of "iWeekly". More advertising space and consumption-driven functions will be created in the next version of "iWeekly". Expanded family of application products and improved product design are expected to drive a significant growth in the revenue of this business unit in 2012. Although the absolute number of mobile digital media is still small currently while comparing to that of the print media, the business is expected to grow rapidly in the future years along with explosive market expansion. The Directors have the confidence that in the near future, mobile digital media will contribute an important share to the Group's total revenue and profit.

Proposed investment to be made with United Achievement Limited

By an announcement dated 24 June 2011, the Company announced that the Group entered into two framework agreements with United Achievement Limited in relation to the proposed establishment of certain joint ventures to engage in digital media publishing and distribution business and e-commerce business respectively. As at 31 December 2011, the Group was still in discussion with United Achievement Limited and no definitive agreements were entered into. The Company is still considering the terms then under negotiation and is willing to form such joint ventures, subject to mutually acceptable terms being agreed and finalised. The Company will make further announcement on such matter where the circumstances so justify.

(C) FINAL DIVIDEND

The Directors proposed to declare a final dividend of HK3.5 cents (2010: HK$Nil) per share, amounting to approximately HK$15.3 million. Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed dividend will be payable to shareholders whose names appear on the Register of Members of the Company on 5 June 2012 and payable on 26 June 2012. This proposal is subject to shareholders' approval at the forthcoming annual general meeting to be held.

(D) BOOK CLOSURE

The Annual General Meeting of the Company is scheduled on Monday, 28 May 2012. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Thursday, 24 May 2012 to Monday, 28 May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 23 May 2012.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is 5 June 2012. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 1 June 2012 to Tuesday, 5 June 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Thursday, 31 May 2012. The payment of final dividend will be made on Tuesday, 26 June 2012.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash flows

During the year, the Group had a net cash inflow from operating activities of approximately RMB56.5 million (2010: RMB34.0 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 from investing activities amounted to RMB58.4 million (2010: RMB30.7 million) which was mainly attributable to (a) capital expenditures on leasehold improvements and purchase of fixed assets in Guangzhou and Shanghai offices, (b) partial payment for the acquisition of a mobile magazine (namely "iWeekly") and (c) capital injection in to a jointly controlled entity in Hangzhou. The Group's cash inflow from financing activities amounted to RMB64.5 million (2010: RMB20.0 million) which included (a) net proceeds from placing of shares to three renowned investors of RMB42.4 million and (b) net advance from bank loans of RMB26.1 million.

Amounts due from Guangzhou Zhongde

As at 31 December 2011, other receivables included the amounts of RMB9.7 million (2010: RMB13.4 million) due from Guangzhou Zhongde Consultation Company Limited ("Guangzhou Zhongde"). Guangzhou Zhongde was previously owned by Mr. Shao Zhong, an 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 bimonthly instalments of approximately RMB600,000 each starting from January 2010. The Group received net settlement of receivables of RMB3.7 million during the year of 2011.

Borrowings and gearing

As at 31 December 2011, the Group's outstanding borrowings was approximately RMB48.8 million (2010: RMB23.0 million). The total borrowings comprised secured bank loans of approximately RMB34.7 million (2010: RMB16.2 million) and other unsecured bank loan of approximately RMB14.1 million (2010: RMB6.8 million). Unsecured bank loan of RMB6.0 million and secured bank loan of RMB20.0 million were guaranteed by Mr. Shao. The gearing ratio as at 31 December 2011 was 8.8% (31 December 2010: 5.5%), 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 2011, the total debts of the Group were repayable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year or on demand	35,695	8,301
After 1 year but within 2 years	1,715	1,638
After 2 years but within 5 years	6,020	5,630
After 5 years	5,371	7,381
	13,106	14,649
	48,801	22,950

SHARE CAPITAL STRUCTURE

As at 31 December 2011, 437,850,000 shares of a nominal value of HK$0.01 each were in issue. 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.

CAPITAL EXPENDITURE

Capital expenditures of the Group for the year include expenditures on fixed assets of approximately RMB52.2 million (2010: RMB15.3 million). Major expenditure included the purchase of building held for own use, furniture, fixtures and equipments for the digital media and television segments.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Save for the corporate guarantee given to banks and the Group's major printing supplier to secure the banking facilities and printing credit line, as at 31 December 2011, the Group did not have any material contingent liabilities or guarantees other than those disclosed below.

As at 31 December 2011, the Group's bank loans of RMB14.7 million and RMB20.0 million were secured by mortgages over the Group's properties in Beijing, the PRC, guarantees from Shanghai Gezhi, a subsidiary of the Group and certain trade receivables of the Group with an aggregate carrying value of RMB20 million respectively.

As at 31 December 2011, the Group's printing credit line in an amount of approximately HK$26 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 2011.

EMPLOYEES AND SHARE AWARD PLAN

As at 31 December 2011, the Group had a total of 973 staff (2010: 801 staff), total staff costs (including Directors' remuneration) were approximately RMB167.4 million (2010: RMB133.9 million). The emoluments of the Directors and senior management are reviewed by the Remuneration Committee. The increase in head counts was due to the launch of "Bloomberg Businessweek/ China" and "Chutzpah!" and the increase of headcounts for the 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 adopted 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 Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). During the year 2011, the Company did not contribute any amount to the Plan and there was surplus funds in the Plan to acquire shares of the Company. 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Directors are of the opinion that the Company has complied with the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year. 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. At 31 December 2011, the Board had eight Directors: five Executive Directors and three Independent Non-executive Directors. Independent Non-executive Directors represent more than one-third of the Board.

As at the latest practicable date prior to the issue of this annual report, 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
Mr. Mao Xiaofeng (appointed on 29 February 2012)

The biographies of all the Directors, including their relationships, are set out on pages 43 to 44 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. 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 2011
Mr. Shao Zhong	9	11
Mr. Wong Shing Fat	10	11
Mr. Li Jian	9	11
Mr. Mok Chun Ho, Neil	9	11
Mr. Cui Jianfeng	11	11
Mr. Wang Shi	1	11
Mr. Jiang Nanchun	2	11
Mr. Au-Yeung Kwong Wah	8	11
Mr. Mao Xiaofeng (appointed on 29 February 2012)	0	11

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 eleven Board meetings held, two fall 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 10 to the consolidated financial statements of this Annual Report. The remuneration policy of the Group is set out on page 54 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 terms 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 four Independent Non-executive Directors, namely, Mr. Au-Yeung Kwong Wah (chairman of the Audit Committee), Mr. Wang Shi , Mr. Jiang Nanchun and Mr. Mao Xiaofeng *(whose appointment took effect upon conclusion of the Board meeting which approved the annual results announcement of the Company dated 29 February 2012)*.

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 the 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 2011
Mr. Au-Yeung Kwong Wah	2	2
Mr. Wang Shi	2	2
Mr. Jiang Nanchun	0	2
Mr. Mao Xiaofeng (appointed on 29 February 2012)	0	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 2011 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 2011.

REMUNERATION COMMITTEE

The Company has established a remuneration committee ("Remuneration Committee") in 2009 with written terms of reference. The Remuneration Committee currently comprises three Independent non-executive Directors, namely Mr. Mao Xiaofeng (chairman of the Remuneration Committee), Mr. Au-Yeung Kwong Wah and Mr. Jiang Nanchun and one executive Director, namely Mr. Wong Shing Fat. 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.

The duties of the Remuneration Committee, as set out in its terms of reference, adhere to the relevant CG Code. The 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 Remuneration Committee reviewed the remuneration level for the Directors and recommended increases for 2011. 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 2011
Mr. Wong Shing Fat	1	1
Mr. Au-Yeung Kwong Wah	1	1
Mr. Jiang Nanchun	1	1
Mr. Mao Xiaofeng (appointed on 29 February 2012)	0	1

NOMINATION OF DIRECTORS

Previously, the Board was 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 were proposed to the Board for consideration and the selection criteria were mainly based on the assessment of their professional qualifications and experience. The Board selected and recommended candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business. Pursuant to the board meeting on 29 February 2012, the Board resolved to establish a Nomination Committee with written terms of reference, including reviewing the structure, size and composition of the Board at least annually, making recommendation on any proposed changes to the Board and the appointment or re-appointment of directors. The Nomination Committee comprises four Independent non-executive Directors, namely Mr. Wang Shi (chairman of the Nomination Committee) and Mr. Au-Yeung Kwong Wah, Mr. Jiang Nanchun and Mr. Mao Xiaofeng.

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 controls and for reviewing its effectiveness. Preliminary reviews of the Group's financial controls, internal controls 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. The Company Secretary closely monitored the legislative progress on the statutory codification of certain requirements to disclose price sensitive information as formulated in the Securities and Future (Amendment) Bill 2011, to ensure appliance with obligations under applicable rules, regulations and laws. It should be noted, however, that while a sound and well-designed system of internal control helps to 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, KPMG provided the following audit and non-audit services to the Group:

	2011 RMB'000	2010 RMB'000
Audit service	1,511	1,493
Other non-audit service	448	261
Total	1,959	1,754

KPMG will retire and offer themselves for re-appointment at the annual general meeting of the Company to be held in 28 May 2012.

A statement by KPMG about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 56.

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 28 May 2012 at Caine Room, Level 7, 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.

Conclusion

The Company strongly believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest and the management tries 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 51, 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 53, 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 43, 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 12 years of experience in the marketing industry.

Mr. MOK Chun Ho, Neil (莫峻皓), aged 46, 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 and The Hong Kong Institute of Chartered Secretaries in February 2010, April 1999 and May 2011, respectively. Mr. Mok has over 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 39, 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 12 years of experience in finance and business management.

Biographical Details of Directors and Senior Management *(continued)*

Independent non-executive Directors

Mr. WANG Shi（王石）, aged 60, 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 38, 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 47, 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.

Mr. Mao Xiaofeng（毛曉峰）, aged 39, was appointed as the independent non-executive Director in February 2012. Mr. Mao obtained a master's degree in industrial and foreign trade from Hunan University in 1995, a doctorate degree in management from Hunan University, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University in the United States of America in 2000. Currently, he is a vice president of China Minsheng Banking Corp., Ltd. ("**Minsheng Bank**"), the shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange. Mr. Mao has also been the secretary to the board of directors of Minsheng Bank and one of the joint company secretaries of Minsheng Bank since June 2003 and March 2004 respectively.

SENIOR MANAGEMENT

Mr. Alain DEROCHE, aged 50, 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 27 years of experience in international media management of the international media industry.

Biographical Details of Directors and Senior Management *(continued)*

Ms. YU Ping(虞萍), aged 42, 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 14 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 47, 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 17 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 37, 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 40, 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 16 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 46, 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 37, 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 14 years of experience in international fashion news reporting and styling for advertising and professional fashion media.

Ms. HUANG Wenhua（黃文樺）, aged 41, 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 12 years of experience in the media industry.

Directors' Report

The Directors are pleased to submit their annual 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 2011.

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 segments is set out in note 12 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 2011 are set out in the consolidated financial statements on pages 57 to 123.

Movements in the reserves of the Company and amounts available for distribution to shareholders are disclosed in note 27(a) and 27(d) to the financial statements respectively. Movements in the reserves of the Group are disclosed in the consolidated statement of changes in equity on page 61.

DIVIDEND

The Directors have declared a final dividend of HK3.5 cents (2010: HK$ Nil) per share amounting to HK$15,300,000 ,which represents approximately 20% of the net profit of 2011 and are payable to shareholders whose names appear on the Register of Members of the Company on 5 June 2012 and payable on 26 June 2012.

SHARE CAPITAL

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

FIXED ASSETS

Movements in the fixed assets of the Group are set out in note 13 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totaling HK$1,125,000.

MAJOR SUPPLIERS AND CUSTOMERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 52.5% and 37.0% of the Group's total purchases for the year ended 31 December 2011 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 40.2% and 15.4% of the Group's total sales for the year ended 31 December 2011 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 2011 had any interest in any of the five largest suppliers and customers disclosed above.

PLACING

In order to strengthen the capital base and financial position of the Group, on 6 May 2011,the placing agreement was entered into among Mr. Shao and Guoyuan Securities Brokerage (Hong Kong) Limited; and the placing and subscription agreement (the "Placing and Subscription Agreement") was entered into between Mr. Shao, the Company and BOCI Asia Limited on the same day. Completion of the placing contemplated under the aforementioned agreements took place on 12 May 2011, pursuant to which 25,020,000 ordinary shares ("Shares") of HK$0.01 each in the capital of the Company were placed to United Achievement Limited, 8,340,000 Shares were placed to Best View Enterprise Limited and 8,340,000 Shares were placed to SHK Hong Kong Industries Limited. On 19 May 2011, completion of the subscription contemplated under the Placing and Subscription Agreement took place and an aggregate of 20,850,000 Shares were allotted and issued at HK$2.50 per Share ("Placing Price", the net price per Share being HK$2.45) to Mr. Shao. The Placing Price represented a discount of approximately 1.96% to the closing price of HK$2.55 per Share as quoted on the Stock Exchange on 6 May 2011.

The net proceeds from the subscription under the Placing and Subscription Agreement was used as working capital and for other general corporate purposes, including to finance the Group's growth and expand into new business areas, such as digital media and e-commerce.

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 124.

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.

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. Wang Shi
Mr. Jiang Nanchun
Mr. Au-Yeung Kwong Wah
Mr. Mao Xiaofeng (Appointed on 29 February 2012)

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, 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 Hong Kong Stock Exchange (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (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 share of the Company held	Approximate % of issued share capital
Shao Zhong ("Mr. Shao")	The Company	Beneficial owner	272,948,000 (L)	62.33%
Wong Shing Fat	The Company	Beneficial owner	2,000,000 (L)	0.46%
Li Jian	The Company	Beneficial owner	2,000,000 (L)	0.46%
Mok Chun Hon, Neil	The Company	Beneficial owner	1,336,000 (L)	0.31%
Cui Jianfeng	The Company	Beneficial owner	1,336,000 (L)	0.31%

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%
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%
Mr. Shao	廣州摩登視頻傳媒有限公司 (Guangzhou Modern Video Media Co., Ltd. (for identification purpose only), "Guangzhou Modern Video")	Interest of controlled corporations *(Note 11)*	100%

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.

11. Guangzhou Modern Video 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 Guangzhou Modern Video held by Guangzhou Modern Information and Guangzhou Modern Books, both of which are Mr. Shao's controlled corporations.

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 2011, 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 held	Percentage of issued ordinary shares as at 31 December 2011
Madam Zhou Shao-min *(Note 1)*	Interest of a spouse	272,948,000	62.33%
Cheah Capital Management Limited *(Note 2)*	Interest of corporation controlled by the substantial shareholder	25,480,000	5.82%
Cheah Cheng Hye *(Notes 2, 3)*	Founder of a discretionary trust	25,480,000	5.82%

Name of Shareholder	Capacity	Number of ordinary shares held	Percentage of issued ordinary shares as at 31 December 2011
Cheah Company Limited *(Note 3)*	Interest of corporation controlled by the substantial shareholder	25,480,000	5.82%
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	25,480,000	5.82%
To Hau Yin *(Note 3)*	Interest of a substantial shareholder's child under 18 or spouse	25,480,000	5.82%
Value Partners Group Limited *(Note 2)*	Interest of corporation controlled by the substantial shareholder	25,672,000	5.86%
Value Partners Limited	Investment manager	25,480,000	5.82%
Harmony Master Fund	Beneficial owner	26,360,000	6.02%
United Achievement Limited *(note 4)*	Beneficial owner	25,020,000	5.71%
Warburg Pincus & Co. *(note 4)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus Partners LLC *(note 4)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus Private Equity X, L.P. *(note 4)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus X, L.P. *(note 4)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus X, LLC *(note 4)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%

Notes:

1. Madam Zhou Shao-min is the spouse of Mr. Shao Zhong, under the SFO, she is deemed to be interested in the Shares held by Mr. Shao.

2. According to the corporate substantial shareholder notice of Value Partners Limited filed on 23 May 2011, Cheah Cheng Hye, Value Partners Group Limited, Cheah Capital Management Limited and Cheah Company Limited are Value Partners Limited's 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 years of age.

4. According to the corporate substantial shareholder notice of Warburg Pincus & Co. dated 23 May 2011, United Achievement Limited is 96.9% controlled by Warburg Pincus Private Equity X, L.P., which is ultimately wholly controlled by Warburg Pincus & Co. through Warburg Pincus Partners LLC, Warburg Pincus X, LLC and Warburg Pincus X, L.P., all being directly or indirectly wholly controlled by Warburg Pincus & Co.. For the purpose of the SFO, each of Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus X, LLC, Warburg Pincus X, L.P. and Warburg Pincus Private Equity X, L.P. is deemed to be interested in the shares beneficially owned by United Achievement Limited.

SHARE OPTION SCHEME

A share option scheme ("Scheme") was conditionally adopted by a resolution in writing passed by the then sole shareholder of the Company on 24 August 2009. Under the Scheme, the Directors may grant options to subscribe for shares of the Company to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries.

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 2011.

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 2011.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Investment in online search services held by Mr. Shao Zhong

As at 31 December 2011, Mr. Shao Zhong ("Mr. Shao"), an executive Director and the controlling Shareholder, held about 20% equity interest in a company ("Online Search Company") incorporated in Beijing, the PRC. The Online Search Company has been principally engaged in the business of operating an internet platform of open community in the form of a network of community members asking and answering questions with high-quality contents, generated by users and shared across multiple knowledge domains. He is not in control of such company. Mr. Shao made investment in the said business before the Group's commencement of the Mobile Digital Media Business.

As the Group's mobile digital media business currently focuses on online advertising and publication of multiple digital media products, the Directors believe that the business of the Online Search Company currently does not compete with the Group's business. If there are any changes in the future, the Company would discuss with (if necessary) Mr. Shao on his ceasing to hold or disposing of such investment.

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 only 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) 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 authorize 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; and

(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 2011 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.

The following connected transaction was entered into by the Group during the year under review. On 20 September 2011, the Group, through its wholly owned subsidiaries, entered into the 2011 Contractual Agreements (as shown below) with Mr. Shao (a Director and substantial shareholder of the Company), the Target Companies (as defined below) and other relevant parties, pursuant to the arrangements contemplated under such 2011 Contractual Agreements, the Group would effectively obtain the control over the financial and operational policies and decisions of the Target Companies at a consideration of RMB18,000,000 (approximately HK$21,600,000). The 2011 Contractual Arrangements include:

(a) the equity pledge agreements dated 20 September 2011 and entered into between (among others) Mr. Shao, 雅致美信息諮詢（深圳）有限公司 (Yazhimei Information Consultation (Shenzhen) Co., Ltd.("Yazhimei", for identification purposes only)), 上海森音信息技術有限公司 (Shanghai Senyin Information Technology Co., Ltd. ("SH Senyin", for identification purposes only, which was beneficially wholly owned by Mr. Shao), for guaranteeing the payment of the service fees under the management and consultation services agreements (as detailed in (d) below);

(b) the option agreements dated 20 September 2011 and entered into between (among others) Mr. Shao, SH Senyin, 廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited ("GZ Xiandai", for identification purposes only, which was beneficially owned as to 95% by Mr. Shao, GZ Xiandai together with SH Senyin are collectively referred to as "Target Companies")) and Modern Mobile Digital Media Company Limited ("MM Mobile Digital"), pursuant to which MM Mobile Digital has been granted options to acquire, directly or through one or more nominees, the entire equity interest in the Target Companies at nil consideration or the minimum amount as permitted by the applicable PRC laws;

(c) the business operation agreements dated 20 September 2011 and entered into between (among others) Yazhimei, GZ Xiandai, Mr. Shao and SH Senyin, pursuant to which the Target Companies have undertaken not to enter into any material business transaction without the prior written consent of Yazhimei and to appoint individuals as nominated by Yazhimei to be the directors and key management of the Target Companies;

(d) the management and consultation services agreements dated 20 September 2011 and entered into between (among others) Yazhimei, GZ Xiandai and SH Senyin, pursuant to which the Target Companies will engage Yazhimei on an exclusive basis to provide enterprise management consultation services and other services in connection with the business services of the Target Companies; and

(e) the proxy agreements dated 20 September 2011 and entered into between (among others) Yazhimei, Mr. Shao and SH Senyin, pursuant to which Mr. Shao is authorised to exercise the shareholders' rights in each of the Target Companies including attending shareholders' meeting and exercising voting rights (as long as Mr. Shao remains as the chairman of Yazhimei).

The 2011 Contractual Agreements have not completed at 31 December 2011, for further details please refer to the Company's announcement dated 21 September 2011.

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 EMOLUMENT POLICY

As at 31 December 2011, the Group had around 973 employees (2010: 801). 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 employee benefits include provident fund, insurance and medical cover and the share award plan adopted by the Company which became effective on 7 December 2009.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,600,000 shares of the Company at a total consideration of about HK$3,018,000.

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" section of this Annual Report on pages 36 to 42.

AUDIT COMMITTEE

The Company established an audit committee with terms of reference on 24 August 2009 in compliance with the CG Code set out in Appendix 14 of the Listing Rules. Mr. Mao Xiaofeng was appointed as a new member of the Audit Committee with effect from 29 February 2012. Accordingly, immediately after such appointment, Audit Committee has four members comprising four Independent non-executive Directors, namely, Mr. Au-Yeung Kwong Wah, Mr. Wang Shi, Mr. Jiang Nanchun and Mr. Mao Xiaofeng.

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 as at the latest practicable date prior to the issue of this annual report, the Directors confirm that the Company has maintained, throughout the year ended 31 December 2011, 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

KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forth coming Annual General Meeting.

On behalf of the Board
Shao Zhong
Chairman

Hong Kong, 29 February 2012

Independent Auditor's Report

KPMG

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 57 to 123, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 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 2011 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

29 February 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

2011 HKD'000		Note	2011 RMB'000	2010 RMB'000
723,060	Turnover	4	586,186	456,255
(310,454)	Cost of sales		(251,686)	(183,056)
412,606	**Gross profit**		334,500	273,199
2,617	Other revenue	5(a)	2,122	5,459
(127)	Other net loss	5(b)	(103)	(978)
(141,899)	Selling and distribution expenses		(115,038)	(92,266)
(162,258)	Administrative and other operating expenses		(131,543)	(110,084)
110,939	**Profit from operations**		89,938	75,330
(3,312)	Finance costs	6(a)	(2,685)	(1,176)
(588)	Share of (loss)/profit of an associate	17	(477)	405
(2,106)	Share of losses of a jointly controlled entity	18	(1,707)	(3,208)
104,933	**Profit before taxation**	6	85,069	71,351
(30,580)	Income tax	7(a)	(24,791)	(18,599)
74,353	**Profit for the year**		60,278	52,752
	Other comprehensive income for the year			
(2,912)	Exchange differences on translation of financial statements of overseas subsidiaries	8	(2,361)	(1,214)
71,441	**Total comprehensive income for the year**		57,917	51,538
74,353	**Profit attributable to equity shareholders**		60,278	52,752
71,441	**Total comprehensive income attributable to equity shareholders**		57,917	51,538
	Earnings per share (RMB)	9		
HKD 0.18	– Basic and diluted		0.14	0.13

The notes on pages 64 to 123 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)(i).

Consolidated Statement of Financial Position

At 31 December 2011

2011 HKD'000		Note	2011 RMB'000	2010 RMB'000
	Non-current assets			
133,502	Fixed assets	13	108,230	72,063
6,597	Intangible assets	14	5,348	7,031
15,987	Goodwill	15	12,961	12,961
4,944	Interest in an associate	17	4,008	4,485
1,996	Interest in a jointly controlled entity	18	1,618	1,692
2,467	Investments	19	2,000	2,000
6,481	Deferred tax assets	25(b)	5,254	3,188
171,974			139,419	103,420
	Current assets			
242,609	Trade receivables	20	196,684	153,644
90,788	Other receivables, deposits and prepayments	21	73,602	77,571
175,758	Deposits and cash	22	142,487	80,613
509,155			412,773	311,828
	Current liabilities			
29,499	Trade payables	23	23,915	23,777
97,022	Other payables and accruals	23	78,656	71,642
2,544	Amount due to a jointly controlled entity	18	2,062	766
44,030	Bank loans	24	35,695	8,301
41,533	Taxation payables	25(a)	33,671	29,430
214,628			173,999	133,916
294,527	**Net current assets**		238,774	177,912

Consolidated Statement of Financial Position *(continued)*

At 31 December 2011

2011 HKD'000		Note	2011 RMB'000	2010 RMB'000
466,501	**Total assets less current liabilities**		378,193	281,332
	Non-current liabilities			
(16,166)	Bank loans	24	(13,106)	(14,649)
(755)	Deferred tax liabilities	25(b)	(612)	—
(16,921)			(13,718)	(14,649)
449,580	**NET ASSETS**		364,475	266,683
	CAPITAL AND RESERVES			
4,378	Share capital	26	3,848	3,675
445,202	Reserves	27	360,627	263,008
449,580	**TOTAL EQUITY**		364,475	266,683

Approved and authorised for issue by the board of Directors on 29 February 2012

Shao Zhong	)	
	)	Directors
Wong Shing Fat	)	

The notes on pages 64 to 123 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

2011 HKD'000		Note	2011 RMB'000	2010 RMB'000
	Non-current asset			
10,000	Investments in subsidiaries	16	8,805	8,805
	Current assets			
10,267	Receivables, deposits and prepayments	21	8,324	8,741
159,344	Amounts due from subsidiaries	16	129,180	76,653
24,573	Deposits and cash	22	19,921	13,101
194,184			157,425	98,495
	Current liabilities			
1,311	Payables and accruals	23	1,063	1,245
10,000	Bank loan	24	8,107	6,770
5,759	Amounts due to subsidiaries	16	4,669	4,874
17,070			13,839	12,889
177,114	**Net current assets**		143,586	85,606
187,114	**NET ASSETS**		152,391	94,411
	CAPITAL AND RESERVES			
4,378	Share capital	26	3,848	3,675
182,736	Reserves	27	148,543	90,736
187,114	**TOTAL EQUITY**		152,391	94,411

Approved and authorised for issue by the board of Directors on 29 February 2012

	)	
Shao Zhong	)	
	)	Directors
Wong Shing Fat	)	
	)	

The notes on pages 64 to 123 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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 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 8)	—	—	—	—	—	(1,214)	—	(1,214)
Total comprehensive income for the year	—	—	—	—	—	(1,214)	52,752	51,538
Issuance of new shares (Note 26(a)(i))	144	—	18,310	—	—	—	—	18,454
Shares purchased for Share Award Scheme (Note 26(b))	—	(2,732)	—	—	—	—	—	(2,732)
Shares vested under Share Award Scheme (Note 26(b))	—	126	—	—	—	—	—	126
At 31 December 2010	3,675	(4,670)	102,148	4,259	27,308	(2,049)	136,012	266,683
At 1 January 2011	3,675	(4,670)	102,148	4,259	27,308	(2,049)	136,012	266,683
Changes in equity for 2011:								
Profit for the year	–	–	–	–	–	–	60,278	60,278
Other comprehensive income (Note 8)	–	–	–	–	–	(2,361)	–	(2,361)
Total comprehensive income for the year	–	–	–	–	–	(2,361)	60,278	57,917
Issuance of new shares (Note 26(a)(ii))	173	–	42,209	–	–	–	–	42,382
Shares purchased for Share Award Scheme (Note 26(b))	–	(2,507)	–	–	–	–	–	(2,507)
Transfer to reserves	–	–	–	–	6,137	–	(6,137)	–
At 31 December 2011	3,848	(7,177)	144,357	4,259	33,445	(4,410)	190,153	364,475

The notes on pages 64 to 123 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

2011 HKD'000		Note	2011 RMB'000	2010 RMB'000
	Operating activities			
104,933	Profit before taxation		85,069	71,351
	Adjustments for:			
18,985	Depreciation of fixed assets	6(c)	15,391	12,219
2,108	Amortisation of intangible assets	6(c)	1,709	634
1,441	Impairment losses on trade receivables recognised, net	6(c)	1,168	686
—	Share-based payment expense	6(b)	—	126
(356)	Interest income	5(a)	(289)	(86)
3,312	Finance costs	6(a)	2,685	1,176
588	Share of loss/(profit) of an associate	17	477	(405)
2,106	Share of losses of a jointly controlled entity	18	1,707	3,208
1,008	Impairment loss on interest in a jointly controlled entity	18	817	—
(60)	(Gain)/loss on disposals of fixed assets	5(b)	(49)	1,175
356	Foreign exchange loss		289	917
	Changes in working capital:			
1,598	Increase in amount due to a jointly controlled entity		1,296	766
(54,881)	Increase in trade receivables		(44,492)	(40,951)
2,760	Decrease/(increase) in other receivables, deposits and prepayments		2,238	(11,069)
224	Increase/(decrease) in trade payables		182	(11,549)
13,016	Increase in other payables and accruals		10,552	18,362
97,138	**Cash generated from operations**		78,750	46,560
—	Hong Kong Profits Tax refunded	25(a)	—	623
(27,421)	PRC Corporate Income Tax paid	25(a)	(22,230)	(13,175)
69,717	**Net cash generated from operating activities**		56,520	34,008

Consolidated Cash Flow Statement *(continued)*

For the year ended 31 December 2011

2011 HKD'000		Note	2011 RMB'000	2010 RMB'000
	Investing activities			
357	Interest received		289	86
(64,344)	Payment for the purchase of fixed assets	13(a)	(52,164)	(15,259)
(68)	Payment for the purchase of intangible assets	14	(55)	(540)
555	Proceeds from disposals of fixed assets		450	61
—	Additions to unlisted investments	19	—	(2,000)
(5,551)	Payment for acquisition of a business operation	31	(4,500)	(9,000)
—	Acquisition of an associate	17	—	(4,080)
(3,022)	Additional capital injection to a jointly controlled entity	18	(2,450)	—
(72,073)	**Net cash used in investing activities**		(58,430)	(30,732)
	Financing activities			
(1,816)	Interest paid		(1,472)	(1,176)
—	Cash proceeds from the listing of the Company's shares		—	7,013
53,404	Cash proceeds from issuance of new shares upon placing of shares	26(a)	43,295	18,704
(1,126)	Share issuing costs paid		(913)	(250)
(3,092)	Payment for the purchase of shares in connection with the Share Award Scheme	26(b)	(2,507)	(2,732)
42,071	Proceeds from new bank loans		34,107	6,770
(9,833)	Repayment of bank loans		(7,972)	(1,446)
—	Repayment of other loan		—	(6,868)
79,608	**Net cash generated from financing activities**		64,538	20,015
77,252	**Net increase in cash and cash equivalents**		62,628	23,291
99,436	**Cash and cash equivalents at beginning of the year**		80,613	57,922
(930)	**Effect of foreign exchange rates changes**		(754)	(600)
175,758	**Cash and cash equivalents at end of the year**		142,487	80,613
	Analysis of cash and cash equivalents			
175,758	Deposits and cash	22	142,487	80,613

The notes on pages 64 to 123 form part of these financial statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION

Modern Media Holdings Limited ("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, 10th Floor, Exhibition Centre, No. 1 Software Park Road, Zhuhai City, Guangdong Province, the PRC and Suite 1101-03, 11th Floor, 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.

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 of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") is set out below.

(ii) The IASB has issued certain new and 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:

— IAS 24 (revised 2009), *Related party disclosures*

— Improvements to IFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current period.

The impact of these developments which are relevant to the Group for the current period are set out as follows:

— IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

— *Improvements to IFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in notes 24 and 32 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

(i) The consolidated financial statements for the year ended 31 December 2011 comprise the Group and the Group's interest in an associate and a jointly controlled entity.

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

The amounts 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 2011 is for convenience only and has been made at the rate of HK$1.2335 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.

(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 3.

(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.

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 a 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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. These investments are subsequently accounted for as follows, depending on their classification:

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 - 10 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 item and are recognised in profit or loss on the date of retirement or disposal.

(h) Intangible assets (other than goodwill)

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.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 being 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets

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

Investments in debt and equity securities and other current and non-current 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;

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

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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)), the impairment loss is measured by comparing the recoverable amount of the investment 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 these financial assets 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade receivables, 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 debtors 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.

(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) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(q)(i), trade and other 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 in 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 period, 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.

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial guarantees issued, provisions and contingent liabilities (continued)

(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 provision 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 of economic benefits 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.

(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 and sales of air-time television advertisements, sales of product placement advertisements within television programme, net of business tax and related surcharge, are recognised upon the publication of the magazine and release of the television programme 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition (continued)

(iii) TV production, sponsorship, event and service income

TV production, 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.

(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. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the 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 the PRC, 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(u) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in 2(u)(i).

(g) A person identified in 2(u)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

As stated in Note 35, the Group has been conducting its operations in certain restricted industries through entities ("PRC Operational Entities") which are held by Mr. Shao Zhong ("Mr. Shao"), an Executive Director/controlling shareholder of the Group. Based on the 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, these PRC Operational Entities are regarded as subsidiaries of the Group; and their financial results and positions are consolidated into the Group.

(b) Key sources of estimation uncertainty

Note 32 contains information about the assumptions and their risk factors 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(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.

(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 ended 31 December 2010. According to the Acquisition Agreement, other than the initial purchase consideration of RMB9,000,000, the remaining purchase consideration was payable by the Group (referred to hereinafter as "Contingent Consideration") and the amount of each instalments was determined with reference to the revenue for the six months ended 30 June 2011 and audited net profit for the year ended 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).

4 TURNOVER

The Group is principally engaged in the provision of multimedia 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.

	2011 RMB'000	2010 RMB'000
Advertising income	593,503	451,503
Circulation income	21,753	18,271
TV production, sponsorship, event and service income	25,594	27,944
	640,850	497,718
Less: Sales taxes and other surcharges	(54,664)	(41,463)
	586,186	456,255

5 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	2011 RMB'000	2010 RMB'000
Interest income from bank deposits	289	86
PRC government incentives (note)	1,833	4,994
Sundry income	—	379
	2,122	5,459

Note:

PRC government incentives mainly represented the amounts received by Modern Media (Zhuhai) Technology Co., Ltd – Shanghai Branch, Shanghai Gezhi Advertising Co., Ltd. and Shanghai Yage Advertising Co., Ltd., wholly-owned subsidiaries of the Group (together referred to as the "Shanghai subsidiaries"). Pursuant to respective agreements between local government bureau and each of the Shanghai subsidiaries, the Group received incentives of RMB1,833,000 from the local government bureau for its media development for the year ended 31 December 2011 (2010: RMB4,994,000) 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

	2011 RMB'000	2010 RMB'000
Gain/(loss) on disposals of fixed assets	49	(1,175)
Net foreign exchange (loss)/gain	(152)	197
	(103)	(978)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2011 RMB'000	2010 RMB'000
(a) Finance costs		
Interest charged on:		
– Bank loans repayable within 5 years	312	70
– Bank loans repayable after 5 years	1,160	1,106
	1,472	1,176
Fair value change on re-measurement of contingent consideration arising from the Acquisition (note 31)	1,213	—
	2,685	1,176
(b) Staff costs		
Salaries, wages and other benefits	141,814	115,218
Share-based payments expenses (note 26(b))	–	126
Contributions to defined contribution retirement plan (note)	25,616	18,508
	167,430	133,852
Staff costs included in:		
– Cost of sales	70,371	52,562
– Selling and distribution expenses	49,723	43,798
– Administrative and other operating expenses	47,336	37,492
	167,430	133,852
(c) Other items		
Depreciation of fixed assets	15,391	12,219
Amortisation of intangible assets	1,709	634
Auditors' remuneration		
– Audit services	1,511	1,493
– Other services	448	261
Operating lease charges in respect of properties	19,233	16,293
Impairment losses on trade receivables recognised, net	1,168	686
Impairment losses on interest in a jointly controlled entity	817	—

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 2011 and 2010 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.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	2011 RMB'000	2010 RMB'000
Current tax – PRC Corporate Income Tax		
Provision for the year	25,052	20,362
Withholding tax (note (v))	2,000	—
(Over)/under-provision in respect of prior years	(581)	450
	26,471	20,812
Current tax – Hong Kong Profits Tax		
Provision for the year	–	—
Over-provision in respect of prior years	–	(1,077)
	–	(1,077)
Deferred tax		
Origination and reversals of temporary differences (note 25(b))	(1,680)	(1,136)
	24,791	18,599

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 2011 and 2010 were calculated at 16.5% of the estimated assessable profits for the respective years. No provision has been made for Hong Kong Profits Tax as the tax losses brought forward from previous years exceed the estimated assessable profits for the year.

(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 22%, 24% and 25% for 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 22%, 24% and 25% for 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% (2010: 25%).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(continued)*

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

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

(v) As of 31 December 2011, the Group made a provision of RMB2,000,000 (2010: RMBNil) for withholding income tax on dividends distributed by Zhuhai Technology.

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

	2011 RMB'000	2010 RMB'000
Profit before taxation	85,069	71,351
Notional tax on profit before taxation, calculated at the rate of 25% (2010: 25%)	21,268	17,838
Effect of differential tax rate on income	1,209	(11)
Tax effect of non-deductible expenses	1,855	2,890
Tax effect of non-taxable revenue	–	(67)
Tax effect of prior years' unrecognised tax losses recognised this year	(278)	(929)
Tax effect of prior years' unrecognised tax losses utilised this year	(1,039)	(1,849)
Tax effect of prior years' other temporary differences recognised this year	–	40
Tax effect of unused tax losses not recognised	357	1,662
Withholding tax on dividends distributed by PRC foreign investment enterprise	2,000	—
Over-provision in prior years	(581)	(627)
Others	–	(348)
Actual tax expense	24,791	18,599

8 OTHER COMPREHENSIVE INCOME

	2011 RMB'000	2010 RMB'000
Exchange differences on translation of financial statements of overseas subsidiaries	(2,361)	(1,214)

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

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB60,278,000 (2010: RMB52,752,000) and the weighted average number of ordinary shares in issue after adjusting for shares held for the Share Award Scheme and placing of shares of 424,708,000 (2010: 400,405,000) calculated as follows.

	Note	2011 '000	2010 '000
Issued ordinary shares at 1 January	26(a)	417,000	400,000
Effect of shares held for the Share Award Scheme	26(b)	(5,259)	(3,973)
Effect of share placement	26(a)	12,967	4,378
Weighted average number of ordinary shares		424,708	400,405

There were no dilutive potential ordinary shares during the years ended 31 December 2011 and 31 December 2010.

10 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2011					2010
	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000	Total RMB'000
Executive Directors						
SHAO Zhong	–	2,512	–	52	2,564	2,528
WONG Shing Fat	–	2,410	1,103	81	3,594	4,636
LI Jian	–	1,300	726	60	2,086	2,683
MOK Chun Ho, Neil	–	1,134	261	40	1,435	1,645
CUI Jianfeng	–	944	659	10	1,613	1,884
Independent non-executive Directors						
JIANG Nanchun	124	–	–	–	124	100
WANG Shi	124	–	–	–	124	100
AU-YEUNG Kwong Wah	182	–	–	–	182	183
Total	430	8,300	2,749	243	11,722	
Total for 2010	383	8,012	5,126	238		13,759

10 DIRECTORS' REMUNERATION *(continued)*

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 2011 and 31 December 2010.

(ii) The Company has not granted any options under its share option scheme adopted on 24 August 2009 during the years ended 31 December 2011 and 31 December 2010.

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 Directors during the year ended 31 December 2011 (2010: 4) whose emoluments are disclosed in note 10. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries, allowances and benefits in kind	2,498	2,274
Discretionary bonuses	126	331
Retirement scheme contributions	—	—
	2,624	2,605

The emoluments of these individuals are within the following band:

	Number of individuals	
	2011	2010
RMB2,500,001 to RMB3,000,000	1	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 2011 and 31 December 2010.

12 SEGMENT REPORTING

At 31 December 2010, the Group had six reportable segments including:

— Advertising (Shanghai/Beijing/Guangzhou/Shenzhen/Hong Kong), and

— Circulation.

These reportable segments were the Group's strategic business units offering advertising services to its customers based on the geographical locations of the advertising customers and providing circulation of magazines to distributors. During the year ended 31 December 2011, the Group established two business units for its newly set up operations namely, digital media and television. As a result of the above, the five advertising reportable segments previously presented on geographical basis are re-grouped and now presented as "Print media advertising" segment to conform to the internal management reporting. The comparative figures have been restated accordingly.

The following describes the operations in each of the Group's reportable segments as at 31 December 2011:

— Print media advertising: this segment engages in the sale of advertising space in the Group's magazines to advertising customers in the PRC and Hong Kong.

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

— Digital media: this segment is a digital media platform in which the Group publishes multiple digital media products and sells advertising spaces. Currently, the "iWeekly" is the sole operating platform on this segment, which is a mobile digital media application operated on iPhone and iPad.

— Television: this segment engages in the sales of air-time television advertisements, sales of product placement advertisements within television programs, syndication income from distributing programs to various television channels and production of television programs and commercials.

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.

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 fixed assets, intangible assets and trade receivables arising from each of the reportable segments as the Group's senior executive management considers that the utilisation of fixed assets and intangible assets and the recoverability of trade receivables have significant impact to the Group's actual performance, liquidity and credit risk. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

Segment assets previously only included trade receivables of each reportable segment as the utilisation of fixed assets and intangible assets were previously monitored on a group basis. With effect from 1 January 2011, fixed assets and intangible assets are grouped to each reportable segment to conform with the internal management reporting. The comparative figures have been restated accordingly.

12 SEGMENT REPORTING (continued)

(a) Segment results and assets (continued)

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.

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 2011 and 2010 is set out below:

	Year ended 31 December 2011				
	Print media advertising RMB'000	Digital media RMB'000	Television RMB'000	Circulation RMB'000	Total RMB'000
Reportable segment revenue derived from the Group's external customers	577,995	15,305	2,667	21,753	617,720
Reportable segment profit/(loss)	179,508	7,984	(15,043)	(87,444)	85,005
Interest income	168	—	—	2	170
Interest expense	(1,339)	—	—	—	(1,339)
Depreciation for the year	(12,853)	(95)	(1,178)	(82)	(14,208)
Amortisation for the year	(509)	(1,200)	—	—	(1,709)
Reportable segment assets	269,358	11,389	10,249	12,266	303,262

	Year ended 31 December 2010 (restated)				
	Print media advertising RMB'000	Digital media RMB'000	Television RMB'000	Circulation RMB'000	Total RMB'000
Reportable segment revenue derived from the Group's external customers	450,963	540	—	18,271	469,774
Reportable segment profit/(loss)	135,831	481	—	(72,520)	63,792
Interest income	75	—	—	1	76
Interest expense	(1,106)	—	—	—	(1,106)
Depreciation for the year	(11,588)	—	—	(30)	(11,618)
Amortisation for the year	(582)	(52)	—	—	(634)
Reportable segment assets	206,469	4,314	—	11,317	222,100

12 SEGMENT REPORTING (continued)

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

	2011 RMB'000	2010 RMB'000
Revenue		
Reportable segment revenue derived from the Group's external customers	617,720	469,774
Other income	23,130	27,944
Less: Sales taxes and other surcharges	(54,664)	(41,463)
Consolidated turnover	586,186	456,255
Profit		
Reportable segment profit derived from the Group's external customers	85,005	63,792
Other income	23,130	27,944
Share of (loss)/profit of an associate	(477)	405
Impairment loss on interest in a jointly controlled entity	(817)	—
Share of losses of a jointly controlled entity	(1,707)	(3,208)
Unallocated head office and corporate expense (note)	(20,065)	(17,582)
Consolidated profit before taxation	85,069	71,351

Note: Depreciation of RMB1,183,000 is included in unallocated head office and corporate expense for the year ended 31 December 2011 (2010: RMB601,000).

Interest income of RMB119,000 is included in unallocated head office and corporate expense for the year ended 31 December 2011 (2010: RMB10,000).

Interest expenses of RMB133,000 is included in unallocated head office and corporate expenses for the year ended 31 December 2011 (2010: RMB70,000).

12 SEGMENT REPORTING (continued)

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

	2011 RMB'000	2010 RMB'000
		(Restated)
Assets		
Reportable segment assets	303,262	222,100
Corporate and unallocated assets	7,000	10,638
Goodwill	12,961	12,961
Interest in an associate	4,008	4,485
Interest in a jointly controlled entity	1,618	1,692
Investments	2,000	2,000
Deferred tax assets	5,254	3,188
Other receivables, deposits and prepayments	73,602	77,571
Deposits and cash	142,487	80,613
Consolidated total assets	552,192	415,248

(c) Geographic information

The following table sets out information about the geographical location of the Group's fixed assets, intangible assets, goodwill, investments and interests in an associate and a 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 interests in an associate and a jointly controlled entity.

	2011 RMB'000	2010 RMB'000
The PRC (place of domicile)	124,789	95,097
Hong Kong	8,633	4,215
Taiwan	743	920
	134,165	100,232

12 SEGMENT REPORTING (continued)

(d) Major customers

The Group's customer base includes one customer (2010: one customer) with whom transactions have exceeded 10% of the Group's revenues. During the years ended 31 December 2011 and 2010, advertising income from the customer amounted to RMB90,107,000 and RMB51,532,000 respectively and arose mainly in print media advertising reportable segment.

13 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 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
At 1 January 2011	40,173	28,367	21,302	11,127	9,774	110,743
Additions	8,492	13,111	9,137	16,563	4,861	52,164
Disposals	—	—	(546)	(7)	(918)	(1,471)
Exchange differences	—	(96)	(73)	(102)	(60)	(331)
At 31 December 2011	48,665	41,382	29,820	27,581	13,657	161,105

13 FIXED ASSETS (continued)

(a) The Group (continued)

	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
Accumulated depreciation:						
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
At 1 January 2011	3,732	13,249	13,172	5,149	3,378	38,680
Charge for the year	918	5,892	4,242	2,542	1,797	15,391
Written back on disposals	—	—	(503)	(7)	(560)	(1,070)
Exchange differences	—	(3)	(59)	(30)	(34)	(126)
At 31 December 2011	4,650	19,138	16,852	7,654	4,581	52,875
Net book value:						
At 31 December 2011	44,015	22,244	12,968	19,927	9,076	108,230
At 31 December 2010	36,441	15,118	8,130	5,978	6,396	72,063

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

	2011 RMB'000	2010 RMB'000
Leasehold properties held outside Hong Kong		
– Medium-term leases (20-50 years)	35,644	36,441
– Long-term leases (over 50 years)	8,371	—
	44,015	36,441

(c) Pledge of assets

Land and buildings held by a subsidiary with carrying value of RMB35,644,000 (2010: RMB36,441,000) was pledged as security for the bank loans amounted to RMB14,694,000 as at 31 December 2011 (2010: RMB16,180,000) (note 24).

14 INTANGIBLE ASSETS

The Group

	Publishing rights RMB'000	Customer relationship RMB'000	Others RMB'000	Total RMB'000
Cost:				
At 1 January 2010	3,000	—	846	3,846
Additions	—	—	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
At 1 January 2011	3,000	3,652	1,353	8,005
Additions	—	—	55	55
Exchange differences	—	—	(34)	(34)
At 31 December 2011	3,000	3,652	1,374	8,026
Accumulated amortisation:				
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
At 1 January 2011	825	52	97	974
Charge for the year	450	1,200	59	1,709
Exchange differences	—	—	(5)	(5)
At 31 December 2011	1,275	1,252	151	2,678
Net book value:				
At 31 December 2011	1,725	2,400	1,223	5,348
At 31 December 2010	2,175	3,600	1,256	7,031

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.

15 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"):

	2011 RMB'000	2010 RMB'000
At 1 January	12,961	—
Arising on acquisition (note 31)	—	12,961
At 31 December	12,961	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. The cash flows are discounted using a discount rate of 23.8% (2010: 23.8%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

As at 31 December 2011, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. No impairment was recorded.

16 INVESTMENTS IN SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

	2011 RMB'000	2010 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	129,180	76,653
Amounts due to subsidiaries	(4,669)	(4,874)
	124,511	71,779

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.

17 INTEREST IN AN ASSOCIATE

The Group

	2011 RMB'000	2010 RMB'000
Share of net assets	2,298	2,775
Goodwill	1,710	1,710
	4,008	4,485

Details of the Group's interest in the associate as at 31 December 2011 are as follows:

Name of associate	Place of establishment and operation	Particulars of paid up capital	Proportion of ownership interest: The 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）("Chongqing Yubao")	PRC	RMB10,000,000	40%	40%	Wholesaling and retailing Chongqing Yubao; Provision of advertising, publication and media service

Goodwill of RMB1,710,000 arose from the acquisition of Chongqing Yubao.

As at 31 December 2011, an impairment test was performed by comparing the attributable carrying amount of the associate with the recoverable amount. The recoverable amount is based on estimated discounted cash flow. No impairment was recorded.

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

	2011 RMB'000	2010 RMB'000
Total assets	2,520	3,826
Total liabilities	(222)	(1,051)
	2,298	2,775
Revenue for the year	5,025	3,231
(Loss)/profit for the year	(477)	405

18 INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group

	2011 RMB'000	2010 RMB'000
Non-current assets		
Share of net assets	1,618	875
Goodwill	—	817
	1,618	1,692
Current liability		
Amount due to a jointly controlled entity (note)	2,062	766

During the year ended 31 December 2011, the Group made a further capital injection of RMB2,450,000 into the jointly controlled entity.

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 2011 are as follows:

Name of jointly controlled entity	Place and date of establishment and operation	Particulars of paid up 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)	PRC 3 July 2007	RMB15,000,000	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 paid up 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.

18 INTEREST IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

The Group (continued)

Included in the cost of investment is goodwill of RMB817,000 arising from the acquisition of Hangzhou Shili. The movement of goodwill is set out below:

	RMB'000
Cost:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	817
Accumulated impairment:	
Impairment loss recognised for the year and at 31 December 2011	817
Carrying value:	
At 31 December 2011	—
At 31 December 2010	817

The Group assessed the recoverable amounts of the interest in a jointly controlled entity based on the present value of the estimated discounted future cash flow and an impairment loss of RMB817,000 was recognised for the year ended 31 December 2011. The impairment charge was included in "administrative and other operating expenses" in the consolidated statement of comprehensive income.

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

	2011 RMB'000	2010 RMB'000
Non-current assets	135	203
Current assets	1,948	2,113
Current liabilities	(465)	(1,441)
Net assets	1,618	875
Income	2,722	1,818
Expenses	(4,429)	(5,026)
Loss for the year	(1,707)	(3,208)

19 INVESTMENTS

	2011 RMB'000	2010 RMB'000
Equity securities		
Unlisted equity securities, at cost	2,000	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.

20 TRADE RECEIVABLES

The Group normally allows a credit period ranging from 30 to 180 days to its advertising and circulation customers (with a certain limited number of customers granted a credit period of 270 days). Further details on the Group's credit policy are set out in note 32(a).

	2011 RMB'000	2010 RMB'000
Trade receivables	198,538	154,330
Less: Allowance for doubtful debts	(1,854)	(686)
	196,684	153,644

(a) Ageing analysis

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

	2011 RMB'000	2010 RMB'000
Within 30 days	72,320	67,053
31 days to 90 days	75,264	54,826
91 days to 180 days	37,515	28,677
More than 180 days	13,439	3,774
	198,538	154,330
Less: Allowance for doubtful debts	(1,854)	(686)
	196,684	153,644

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

20 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 (see note 2(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	686	—
Impairment loss recognised	1,203	686
Uncollectible amounts written off	(35)	—
At 31 December	1,854	686

At 31 December 2011, the Group's trade receivables of RMB1,203,000 (2010: RMB686,000) were individually determined to be impaired respectively. The individually impaired receivables related to customers which management assessed that only a portion of the receivables is 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:

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	133,214	112,645
Less than 1 month past due	29,981	19,636
1 to 3 months past due	18,688	15,609
Over 3 months past due	14,801	5,754
	63,470	40,999
	196,684	153,644

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.

21 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Prepayments	14,632	18,438	217	278
Rental, utility and other deposits	7,035	5,837	—	—
Printing deposits	11,535	11,891	8,107	8,463
Advances to employees	1,415	6,510	—	—
Value-added tax recoverable	16,258	13,812	—	—
Other receivables (notes (b), (c) and (d))	22,727	21,083	—	—
	73,602	77,571	8,324	8,741

Notes:

(a) At 31 December 2011, 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 RMB5,975,000 (2010: RMB4,346,000).

(b) At 31 December 2011, other receivables included the amounts of RMB9,746,000 (2010: RMB13,397,000) due from Guangzhou Zhongde Consultation Company Limited. The amounts are unsecured, interest free and repayable by instalments.

(c) At 31 December 2011, other receivables included an amount of HK$1,800,000 (equivalent to RMB1,459,000) (2010: HK$Nil) in relation to the acquisition of 100% equity interests of Shanghai Senyin Information Technology Co., Ltd.（上海森音信息技術有限公司）("Shanghai Senyin") from Mr. Shao, the controlling shareholder of the Company ("Connected Transaction") which has not completed as at 31 December 2011. Details of the Connected Transaction were set out in the Company's announcements dated 21 September 2011 and 14 February 2012.

(d) At 31 December 2011, other receivables included the amounts of RMB3,747,000 (2010: RMBNil) due from Shanghai Senyin. The amounts due from Shanghai Senyin are unsecured, interest free and have no fixed term of repayment.

22 DEPOSITS AND CASH

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Cash at bank held for specific use (note)	1,196	3,812	—	—
Deposits with banks	18,673	—	18,673	—
Cash at banks	120,166	75,501	1,248	13,101
Cash in hand	2,452	1,300	—	—
	141,291	76,801	19,921	13,101
Deposits and cash	142,487	80,613	19,921	13,101

At 31 December 2011, deposits and cash of the Group included the amounts denominated in RMB of RMB118,079,000 (2010: RMB60,579,000). 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).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade payables (note 23(a))	23,915	23,777	—	—
Other payables (note 23(b))	71,626	66,826	101	209
Accruals	7,030	4,816	962	1,036
Other payables and accruals	78,656	71,642	1,063	1,245

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

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

	2011 RMB'000	2010 RMB'000
Within 30 days	13,557	6,196
31 days to 90 days	10,358	10,318
91 days to 180 days	—	7,040
More than 180 days	—	223
	23,915	23,777

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

	2011 RMB'000	2010 RMB'000
Deposits received in advance	7,060	4,038
Salaries, wages, bonus and benefits payable	17,207	15,022
Other tax payables	18,726	26,413
Other payables (note)	28,633	21,353
	71,626	66,826

Note: Other payables at 31 December 2011 included (i) the consideration payable of RMB4,500,000 in respect of the acquisition of the business operation of "iWeekly" (2010: contingent consideration to be payable of RMB7,787,000) (note 31) and (ii) advertising and promotion expense payable of RMB7,653,000 (2010: RMB4,089,000) in respect of brand and publication advertising.

24 BANK LOANS

At 31 December 2011, the bank loans were repayable as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Within 1 year or on demand	35,695	8,301	8,107	6,770
After 1 year but within 2 years	1,715	1,638	—	—
After 2 years but within 5 years	6,020	5,630	—	—
After 5 years	5,371	7,381	—	—
	13,106	14,649	—	—
	48,801	22,950	8,107	6,770

At 31 December 2011, the bank loans were secured as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Bank loans				
- Unsecured (Note (a))	14,107	6,770	8,107	6,770
- Secured (Notes (a) and (b))	34,694	16,180	—	—
	48,801	22,950	8,107	6,770

Notes:

(a) Unsecured bank loan of RMB6,000,000 and secured bank loan of RMB20,000,000 were guaranteed by Mr. Shao, the controlling shareholder of the Company (2010: RMBNil).

(b) Other than the security set out above, the secured bank loans of RMB14,694,000 were also guaranteed by the Company and Shanghai Gezhi Advertising Co., Ltd., a subsidiary of the Group (2010: RMB16,180,000).

At 31 December 2011, the bank loans were secured by the following assets:

	2011 RMB'000	2010 RMB'000
- Land and buildings held for own use	35,644	36,441
- Trade receivables	20,000	—

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2011 RMB'000	2010 RMB'000
At 1 January	29,430	22,254
Provision for the year:		
- PRC Corporate Income Tax	24,471	20,812
- Withholding Tax	2,000	—
- Hong Kong Profits Tax	—	(1,077)
Tax (paid)/refunded		
- PRC Corporate Income Tax	(22,230)	(13,175)
- Hong Kong Profits Tax	—	623
	33,671	29,437
Exchange differences	—	(7)
At 31 December	33,671	29,430

Taxation payable in the consolidated statement of financial position at 31 December 2011 is expected to be payable within one year.

(b) Deferred tax assets/(liabilities) recognised

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

	Future benefit of tax losses RMB'000	Depreciation allowances in excess of the related depreciation RMB'000	Other temporary differences RMB'000	Total RMB'000
Deferred tax assets/ (liabilities) arising from:				
At 1 January 2011	3,188	—	—	3,188
Exchange adjustment	(122)	(100)	(4)	(226)
Credited/(charged) to profit or loss (note 7(a))	86	(512)	2,106	1,680
At 31 December 2011	3,152	(612)	2,102	4,642
At 1 January 2010	2,215	—	—	2,215
Exchange adjustment	(163)	—	—	(163)
Credited to profit or loss (note 7(a))	1,136	—	—	1,136
At 31 December 2010	3,188	—	—	3,188

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

(b) Deferred tax assets/(liabilities) recognised *(continued)*

(ii) Reconciliation to the consolidated statement of financial position

	2011 RMB'000	2010 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	5,254	3,188
Net deferred tax liabilities recognised in the consolidated statement of financial position	(612)	—
	4,642	3,188

(c) Deferred tax assets not recognised

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 RMB1,261,000 at 31 December 2011 (2010: RMB2,013,000) 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.

(d) Deferred tax liabilities not recognised

At 31 December 2011, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB20,274,000 (2010: RMB3,953,000). Deferred tax liabilities of RMB1,014,000 (2010: RMB198,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

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 of HK$0.01 each HK$'000
Authorised:			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011		8,000,000,000	80,000
Equivalent to RMB'000			70,485
Issued and fully paid:			
At 1 January 2010		400,000,000	4,000
Placing of shares	(i)	17,000,000	170
At 31 December 2010		417,000,000	4,170
Equivalent to RMB'000			3,675
At 1 January 2011		417,000,000	4,170
Placing of shares	(ii)	20,850,000	208
At 31 December 2011		437,850,000	4,378
Equivalent to RMB'000			3,848

Notes:

(i) 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 respectively, both at a price of HK$1.30 per share having a par value of HK$0.01 each (the "2010 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(c)(i)).

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

(ii) Placing of shares

On 19 May 2011, the Company issued and allotted 20,850,000 shares at a price of HK$2.50 per share to Mr. Shao for gross proceeds of HK$52,125,000 (equivalent to RMB43,295,000). The difference of HK$50,818,000 (equivalent to RMB42,209,000) between the net proceeds of HK$51,026,000 (equivalent to RMB42,382,000) and the par value of the share issued of HK$208,000 (equivalent to RMB173,000) has been credited to the share premium account of the Company (note 27(c)(i)). The shares were issued for the purpose of share placement (the "2011 Placing") in May 2011.

The details of the 2011 Placing and subscription of shares were set out in the Company's announcement dated 6 May 2011.

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 "Share 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 Share Award Scheme and the maximum number of Awarded Shares awarded to a Selected Employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company.

Pursuant to the Share 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 Share Award Scheme.

Upon adoption of the Share 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 Share 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 Share Award Scheme.

During the year ended 31 December 2011, the controlled special purpose entity purchased 1,600,000 Awarded Shares (2010: 2,360,000) at a total cost (including related transaction costs) of HK$3,018,000 (equivalent to RMB2,507,000) and had been deducted from shareholders' equity (2010: HK$3,132,000, equivalent to RMB2,732,000).

During the year ended 31 December 2011, no share was awarded and vested to selected employees, under the Award Scheme, as approved by the Board of Directors of the Company (2010: 110,000 shares).

No share-based payment expense in respect of the Award Shares was charged to the consolidated statement of comprehensive income for the year ended 31 December 2011 (2010: HK$144,000, equivalent to RMB126,000).

At 31 December 2011, there were no outstanding unvested awarded shares (2010: Nil).

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

	2011		2010	
	Number of shares held	Value RMB'000	Number of shares held	Value RMB'000
At 1 January	4,070,000	4,670	1,820,000	2,064
Purchased[1]	1,600,000	2,507	2,360,000	2,732
Shares vested during the year	–	–	(110,000)	(126)
At 31 December	5,670,000	7,177	4,070,000	4,670

[1] Average fair value per share was RMB1.57 (2010: RMB1.16).

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)/ retained earnings RMB'000	Total RMB'000
At 1 January 2010		3,531	83,838	55	(4,078)	83,346
Changes in equity for 2010:						
Issuance of new shares	26(a)(i)	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 and 1 January 2011		3,675	102,148	(2,720)	(8,692)	94,411
Changes in equity for 2011:						
Issuance of new shares	26(a)(ii)	173	42,209	—	—	42,382
Profit for the year		—	—	—	21,329	21,329
Other comprehensive income		—	—	(5,731)	—	(5,731)
Total comprehensive income for the year		—	—	(5,731)	21,329	15,598
At 31 December 2011		3,848	144,357	(8,451)	12,637	152,391

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB21,329,000 (2010: loss of RMB4,614,000) which has been dealt with in the financial statements of the Company.

27 RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2011 RMB'000	2010 RMB'000
Final dividend proposed after the end of the reporting period of HK3.5 cents (equivalent to RMB2.8 cents) per ordinary share (2010: HK$Nil)	12,424	—

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) There were no dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

(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 2011 and 2010 were RMB157,084,000 and RMB93,456,000 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. The gearing ratio as at 31 December 2011 was 8.8% (2010: 5.5%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

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 2011 and 2010 not provided for in the consolidated financial statements were as follows:

	2011 RMB'000	2010 RMB'000
Authorised but not contracted for	3,715	—
Contracted for (note)	16,541	1,909

Note: The balance represented the consideration less deposits of HK$1,800,000 (equivalent to RMB1,459,000) (note 21(c)) in respect of the acquisition of 100% equity interests in Shanghai Senyin which has not completed at 31 December 2011.

(b) Operating lease commitments

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011 RMB'000	2010 RMB'000
Leases expiring:		
- Within 1 year	23,132	17,278
- After 1 year but within 5 years	18,505	31,155
	41,637	48,433

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 2011, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank loans of up to RMB14,694,000 (2010: RMB16,180,000). 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 (2010: RMBNil).

At 31 December 2011 and 2010, 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 2011 and 2010, 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
Shanghai Senyin Information Technology Co., Ltd. ("Shanghai Senyin")	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 10, 11, 17, 18, 21 and 23(b), the Group entered into the following related party transactions during the year ended 31 December 2011.

(a) Related party transactions

	2011 RMB'000	2010 RMB'000
Recurring		
Advertising agency fee income (note (i))	1,055	1,020
Non-recurring		
Television programs broadcasting fee (note (ii))	1,600	—

Note: (i) 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.

(ii) This represented television broadcasting fee paid to a jointly controlled entity, Hangzhou Shili Cultural Media Co., Ltd., which was charged at a pre-determined rates as mutually agreed.

(b) Key management personnel remuneration

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 10 and 11. Total remuneration is included in "Staff costs" as disclosed in note 6(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 15)		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 23(b))	7,787
	16,787

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 ended 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 ended 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 ended 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 ended 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 be 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

31 BUSINESS COMBINATION (continued)

(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.

At 31 December 2010, the Group 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.

Subsequent to 31 December 2010, the Group paid the consideration of RMB4,500,000 and accrued the remaining consideration of RMB4,500,000 at 31 December 2011 as the Acquired Business achieved the profit after tax for the year ended 31 December 2011 in accordance with the relevant provisions of the Acquisition Agreement. Accordingly, the Group recognised a fair value change on re-measurement of the contingent consideration of RMB1,213,000 representing the difference between the remaining consideration paid and payable of RMB9,000,000 and the fair value of the contingent consideration of RMB7,787,000 in the profit or loss (note 6(a)).

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, individual 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 180 days to its advertising and circulation customers (with certain limited number of customers granted a credit period of 270 days). 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:

	2011	2010
From the Group's largest customer	16%	15%
From the Group's five largest customers	45%	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.

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, Taiwan 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 end of the reporting period 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 2011					
	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	23,915	23,915	23,915	—	—	—
Other payables and accruals	78,656	78,656	78,656	—	—	—
Amount due to a jointly controlled entity	2,062	2,062	2,062	—	—	—
Bank loans	48,801	48,801	35,695	1,715	6,020	5,371
	153,434	153,434	140,328	1,715	6,020	5,371

	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

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

(b) Liquidity risk *(continued)*

The Company

	At 31 December 2011					
	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	1,063	1,063	1,063	—	—	—
Bank loan	8,107	8,107	8,107	—	—	—
Amounts due to subsidiaries	4,669	4,669	4,669	—	—	—
	13,839	13,839	13,839	—	—	—

	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 loan	6,770	6,770	6,770	—	—	—
Amounts due to subsidiaries	4,874	4,874	4,874	—	—	—
	12,889	12,889	12,889	—	—	—

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 end of the reporting period:

The Group

	2011		2010	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Variable rate borrowing				
Bank loans	7.133	48,801	5.582	22,950
Variable rate deposits				
Deposits and cash	0.26	142,487	0.12	80,613

(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 2011 and 2010 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 2010.

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 RMB 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 or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	2011	
	United States dollars USD'000	Hong Kong dollars HKD'000
Deposits and cash	—	14

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

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 end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2011		2010	
	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%	—
	(5)%	—	(5)%	—
Hong Kong dollars	5%	1	5%	1
	(5)%	(1)	(5)%	(1)

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 RMB at the exchange rate ruling at the end of the reporting period 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 2010.

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 2011 and 2010.

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 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) In February 2012, the Group entered into an agreement with an independent third party to acquire 20% equity interests in a company specialised in providing leading digital publishing solutions for mobile devices for a consideration of JPY45,000,000 (equivalent to approximately RMB3,715,000).

(b) In February 2012, the Group completed the acquisition of 100% equity interests in 上海森音信息技術有限公司 (Shanghai Senyin Information Technology Co., Ltd.) and 廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited) from Mr. Shao, the Director and controlling shareholder of the Company for an aggregate consideration of RMB18,000,000. Such transaction constitutes connected transaction as defined under the Listing Rules.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of the financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
IFRS 9, *Financial instruments*	1 January 2015
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements (2011)*	1 January 2013
IAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013

The Group is in the process of making an assessment of the expected impact of these amendments 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 2011	2010	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
Highly Modern Limited		British Virgin Islands 19 July 2011	US$1	100%	—	Investment holding
Modern Mobile Digital Media Company Limited		Hong Kong 4 December 2000	HK$2	100%	—	Investment holding
Novel Idea Investments Limited		British Virgin Islands 16 September 2011	US$1	100%	—	Investment holding
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$40,000,000	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

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 2011	2010	Principal activities
Indirectly held: *(continued)*						
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
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

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 2011	2010	Principal activities
Indirectly held: *(continued)*						
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
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	RMB5,010,000	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
Guangzhou Modern Video Media Co., Ltd.* (廣州摩登視頻傳媒有限公司)	(ii)	The PRC 3 March 2011	RMB3,100,000	100%	—	Production and distribution of TV programs, design and production of advertisements, planning of cultural events and exhibition
Modern Mobile Digital Media Co., Ltd.* (現代移動數碼有限公司)	(ii)	Taiwan 25 November 2011	TWD6,000,000	100%	—	Inactive

* The English translation of the Company names is for reference only. The official names of the companies established in the PRC and Taiwan 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 and Taiwan 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 Modern Media Employee Share Trust is set up solely for the purpose of purchasing, administrating and holding the Company's shares for the Share Award Scheme (note 26(b)), the Company has the power to govern the financial and operating policies of the Modern Media Employee Share Trust and it can derive benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group. The assets and liabilities of the Modern Media Employee Share Trust are included in the Group's consolidated statement of financial position and the Company's shares held by the Modern Media Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

As at 31 December 2011, the Company had contributed RMB8,805,000 (2010: 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

(A) RESULTS

	For the year ended 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	586,186	456,255	333,156	347,825	281,085
Profit before taxation	85,069	71,351	38,339	57,003	49,560
Income tax	(24,791)	(18,599)	(7,153)	(11,985)	(7,760)
Profit for the year	60,278	52,752	31,186	45,018	41,800

(B) ASSETS AND LIABILITIES

	At 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Total assets	552,192	415,248	327,782	301,429	229,824
Total liabilities	(187,717)	(148,565)	(128,485)	(136,353)	(106,797)
Total equity	364,475	266,683	199,297	165,076	123,027

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 2007 and 2008 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 two years ended 31 December 2007 and 2008 have been extracted from the Prospectus.

現代傳播
Modern Media

現代傳播集團
MODERN MEDIA GROUP

香港 HONG KONG

香港鰂魚涌英皇道1063號11樓1101-1103室
Suite 1101-1103, 11/F, 1063 King's Road, Quarry Bay, Hong Kong
Tel: (852) 2250 9188   Fax: (852) 2838 8745   E-mail: hk@modernmedia.com.cn

廣州 GUANGZHOU

廣州市珠江新城華夏路8號合景 國際金融廣場第15樓 郵編：510623
15/F, International Finance Place, No.8 Huaxia Road, Zhujiang New Town,
Tianhe District, Guangzhou,510623, China
Tel: (8620) 3879 1622   Fax: (8620) 3879 1623   E-mail: gz@modernmedia.com.cn

上海 SHANGHAI

上海市淮海中路300號香港新世界大廈49樓   郵編：200021
49/F, HongKong New World Tower, No.300, Middle Huaihai Road, Shanghai 200021, China
Tel: (8621) 6335 3637   Fax: (8621) 6335 3635   E-mail: sh@modernmedia.com.cn

北京 BEIJING

北京市朝陽區工體東路中國紅階甲2號5樓   郵編：100027
5/F, No.A2, China View, East Gongti Road, Chaoyang District, Beijing 100027, China
Tel: (8610) 6561 5550   Fax: (8610) 6561 0819   E-mail: bj@modernmedia.com.cn

深圳 SHENZHEN

深圳市福田區竹子林求是大廈西座29樓   郵編：518040
29/F, West Tower, Qiushi Center, Zhuzilin, Futian District, Shenzhen 518040, China
Tel: (86755) 8831 6511   Fax: (86755) 8831 6986   E-mail: sz@modernmedia.com.cn

杭州 HANGZHOU

杭州市德勝路385號銀都大廈1708室   郵編：310015
Rm. 1708, Yindu Building, No. 385, Desheng Road, Hangzhou, Zhejiang 310015, China
Tel: (86571) 8839 4938   Fax: (86571) 8839 4938

成都 CHENGDU

成都市人民南路1段86號城市之心大廈10樓M單元   郵編：610016
Unit M, 10/F, City Center Building, No.86, Branch 1, South People's Road, Chengdu 610016, China
Tel: (8628) 8620 2278   Fax: (8628) 8620 3258

南京 NANJING

南京市上海路42號   郵編：210029
No.42, Shanghai Road, Nanjing 210029, China
Tel: (8625) 8472 2750   Fax: (8625) 8472 2750

大連 DALIAN

大連市中山區武漢街73號寫字樓2301室   郵編：116001
Rm.2301, Office Building, No.73, Wuhan Street, Zhongshan District, Dalian 116001, China
Tel: (86411) 8881 2309   Fax: (86411) 8881 2309

哈爾濱 HARBIN

哈爾濱市道裡區中央大街160號天植大酒店502室   郵編：150010
Rm.502, Tianzhi Hotel, No.160, Center Street, Daoli District, Harbin 150010, China
Tel: (86451)8464 1502   Fax: (86451) 8464 1502