

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

June 28, 2013

The Directors  
Wisdom Holdings Group

BOCI Asia Limited

Dear Sirs,

We report on the financial information of Wisdom Holdings Group (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined balance sheets as at December 31, 2010, 2011 and 2012, the balance sheet of the Company as at December 31, 2012 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended December 31, 2010, 2011 and 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated June 28, 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on March 21, 2012 as an exempted company with limited liability under the Companies Law, Cap 22 (2012 Revision) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1.2 of Section II headed "Reorganization" below, which was completed on June 24, 2013, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganization").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the Reorganization. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong

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Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司) in accordance with Hong Kong Standards on Auditing (the “HKSAs”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon and on the basis set out in Note 1.3 of Section II below.

#### **Directors’ Responsibility for the Financial Information**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

#### **Reporting Accountant’s Responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

#### **Opinion**

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, a true and fair view of the state of affairs of the Company as at December 31, 2012 and of the combined state of affairs of the Group as at December 31, 2010, 2011 and 2012 and of the Group’s combined results and cash flows for the Relevant Periods then ended.

**Section I Financial information for the Group**

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2010, 2011 and 2012 and for each of the years ended December 31, 2010, 2011 and 2012 (the "Financial Information"). The Financial Information of the Group is presented on the basis set out in Note 1.3 of Section II below:

**(A) Combined Balance Sheets**

	Section II Note	As at December 31,		
		2010 RMB'000	2011 RMB'000	2012 RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	11	36,674	37,370	36,110
Intangible assets	12	207	467	2,602
Deferred income tax assets	23	143	612	721
<b>Total non-current assets</b>		<u>37,024</u>	<u>38,449</u>	<u>39,433</u>
<b>Current assets</b>				
Capitalized program costs	13	—	—	4,675
Trade and notes receivables	14	22,260	33,115	127,309
Other receivables	15	67,717	67,990	57,110
Prepayments and other current assets	16	41,823	29,492	42,502
Amounts due from related parties	29	5,521	473	113
Cash and cash equivalents	17	44,371	136,480	99,450
<b>Total current assets</b>		<u>181,692</u>	<u>267,550</u>	<u>331,159</u>
<b>Total assets</b>		<u>218,716</u>	<u>305,999</u>	<u>370,592</u>
<b>EQUITY</b>				
<b>Equity attributable to equity holders of the Company</b>				
Share capital and share premium	18	—	—	3,204
Reserves	19	91,859	98,316	105,882
Retained earnings		60,335	99,486	173,853
		152,194	197,802	282,939
Non-controlling interest		—	413	—
<b>Total equity</b>		<u>152,194</u>	<u>198,215</u>	<u>282,939</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade payables	20	33,607	85,160	30,764
Other payables	21	2,902	8,737	13,042
Advance from customers		19,177	6,834	11,854
Amounts due to related parties	29	1,483	1,396	3,817
Tax payables	22	9,353	5,657	28,176
<b>Total current liabilities</b>		<u>66,522</u>	<u>107,784</u>	<u>87,653</u>
<b>Total liabilities</b>		<u>66,522</u>	<u>107,784</u>	<u>87,653</u>
<b>Total equity and liabilities</b>		<u>218,716</u>	<u>305,999</u>	<u>370,592</u>
<b>Net current assets</b>		<u>115,170</u>	<u>159,766</u>	<u>243,506</u>
<b>Total assets less current liabilities</b>		<u>152,194</u>	<u>198,215</u>	<u>282,939</u>

## (B) Combined Statements of Comprehensive Income

	Section II Note	Year ended December 31,		
		2010 RMB'000	2011 RMB'000	2012 RMB'000
Revenues .....		298,169	471,391	557,213
Cost of services .....	7	(201,709)	(326,212)	(340,250)
<b>Gross profit</b> .....		96,460	145,179	216,963
Selling and distribution costs .....	7	(8,968)	(15,869)	(19,221)
General and administrative expenses .....	7	(10,743)	(15,073)	(21,634)
Other gain, net .....	6	344	69	51
<b>Operating profits</b> .....		77,093	114,306	176,159
Finance income .....	9	168	363	1,675
Finance costs .....	9	(19)	(22)	(30)
Finance income, net .....		149	341	1,645
<b>Profit before income tax</b> .....		77,242	114,647	177,804
Income tax expenses .....	10	(19,837)	(29,116)	(45,828)
<b>Profit for the year</b> .....		57,405	85,531	131,976
<b>Profit attributable to:</b>				
Equity holders of the Company .....		57,405	85,608	131,900
Non-controlling interest .....		—	(77)	76
		57,405	85,531	131,976
<b>Other comprehensive income:</b>				
Foreign currency translation adjustment .....		—	—	33
<b>Total comprehensive income for the year</b> .....		57,405	85,531	132,009
<b>Attributable to:</b>				
Equity holders of the Company .....		57,405	85,608	131,933
Non-controlling interest .....		—	(77)	76
<b>Total comprehensive income for the year</b> .....		57,405	85,531	132,009
Dividend .....	24	18,000	40,000	50,000

## (C) Combined Statements of Changes in Equity

	Section II Note	Attributable to equity holders of the Company				Non-controlling interest	Total equity	
		Share capital	Share premium	Reserves	Retained earnings			
		RMB'000	RMB'000	RMB'000	RMB'000			
<b>Balance at January 1, 2010</b> .....		—	—	76,270	36,519	112,789	—	112,789
Profit/ total comprehensive income for the year ..		—	—	—	57,405	57,405	—	57,405
Issuance of ordinary shares for reorganization of Beijing Wisdom Media to a joint stock company .....	19	—	—	8,628	(8,628)	—	—	—
Dividend .....	24	—	—	—	(18,000)	(18,000)	—	(18,000)
Statutory reserves appropriation .....	19	—	—	6,961	(6,961)	—	—	—
<b>Balance at December 31, 2010</b> .....		—	—	91,859	60,335	152,194	—	152,194
Profit/ total comprehensive income for the year ..		—	—	—	85,608	85,608	(77)	85,531
Non-controlling interest arising from Xinchuang Interaction .....		—	—	—	—	—	490	490
Dividend .....	24	—	—	—	(40,000)	(40,000)	—	(40,000)
Statutory reserves appropriation .....	19	—	—	6,457	(6,457)	—	—	—
<b>Balance at December 31, 2011</b> .....		—	—	98,316	99,486	197,802	413	198,215
Profit/ total comprehensive income for the year ..		—	—	—	131,900	131,900	76	131,976
Capital contribution from equity holders of the Company .....	18	63	3,141	—	—	3,204	—	3,204
Statutory reserves appropriation .....	19	—	—	7,533	(7,533)	—	—	—
Dividend .....	24	—	—	—	(50,000)	(50,000)	—	(50,000)
Disposal of minority interest .....	26	—	—	—	—	—	(489)	(489)
Foreign currency translation adjustment .....		—	—	33	—	33	—	33
<b>Balance at December 31, 2012</b> .....		63	3,141	105,882	173,853	282,939	—	282,939

## (D) Combined Statements of Cash Flows

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>			
Profits before income tax . . . . .	77,242	114,647	177,804
Adjustments for:			
Loss on disposal of a subsidiary . . . . .	—	—	2
Interest income . . . . .	(168)	(363)	(1,675)
Loss on disposal of items of property, plant and equipment . . . . .	—	7	14
Depreciation . . . . .	2,809	3,630	4,083
Amortization . . . . .	12	100	366
Changes in working capital:			
Increase in capitalized program costs . . . . .	—	—	(4,675)
Decrease/(increase) in trade and notes receivables . . . . .	1,746	(10,855)	(94,194)
(Increase)/decrease in other receivables . . . . .	(28,289)	(273)	10,880
(Increase)/decrease in prepayments and other current assets . . . . .	(33,800)	12,331	(13,010)
(Increase)/decrease in amount due from related parties . . . . .	(5,403)	5,048	360
Increase/(decrease) in trade payables . . . . .	32,322	51,553	(54,396)
Increase in other payables . . . . .	368	1,835	5,305
Increase/(decrease) in advance from customers . . . . .	14,408	(12,343)	5,020
(Decrease)/increase in amount due to related parties . . . . .	(514)	(87)	2,421
(Decrease)/increase in tax payable . . . . .	(41)	(2,516)	7,729
Cash generated from operations . . . . .	60,692	162,714	46,034
Income tax paid . . . . .	(17,760)	(30,765)	(31,147)
Net cash generated from operating activities . . . . .	42,932	131,949	14,887
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment . . . . .	—	—	24
Purchase of property, plant and equipment . . . . .	(3,561)	(4,333)	(2,862)
Purchase of intangible assets . . . . .	(203)	(360)	(2,500)
Interest received . . . . .	168	363	1,675
Proceeds from disposal of a subsidiary . . . . .	—	—	508
Cash disposed related to disposal of a subsidiary . . . . .	—	—	(508)
Disposal of a subsidiary . . . . .	—	—	(2)
Net cash used in investing activities . . . . .	(3,596)	(4,330)	(3,665)
<b>Cash flows from financing activities</b>			
Capital contribution from equity holders of the Company . . . . .	—	—	3,204
Cash paid by non-controlling interest for investment in a subsidiary . . . . .	—	490	(489)
Dividend paid to equity holders . . . . .	(18,000)	(36,000)	(49,000)
Cash paid for discount on equity investment in 2009 . . . . .	—	—	(2,000)
Net cash used in financing activities . . . . .	(18,000)	(35,510)	(48,285)
<b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .	21,336	92,109	(37,063)
Cash and cash equivalents at beginning of year . . . . .	23,035	44,371	136,480
Effect of change in exchange rate . . . . .	—	—	33
<b>Cash and cash equivalents at end of year</b> . . . . .	44,371	136,480	99,450

## (E) Balance Sheet of the Company

	Section II	As at December 31, 2012
	Note	RMB'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment in a subsidiary .....		—
<b>Current assets</b>		
Prepayment and other current assets .....		2,531
Amounts due from subsidiaries .....		4,449
Cash and cash equivalents .....		263
<b>Total current assets</b> .....		<u>7,243</u>
<b>Total assets</b> .....		<u>7,243</u>
<b>EQUITY</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital and share premium .....	18	3,204
Accumulated deficit .....		(436)
<b>Total equity</b> .....		<u>2,768</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Amounts due to shareholders .....		2,453
Amounts due to subsidiaries .....		231
Other payables .....		1,791
<b>Total liabilities</b> .....		<u>4,475</u>
<b>Total liabilities and equity</b> .....		<u>7,243</u>
<b>Net current assets</b> .....		<u>2,768</u>
<b>Total assets less current liabilities</b> .....		<u>2,768</u>

**Section II Notes to the Combined Financial Statements****1. General Information, Reorganization and Basis of Presentation****1.1 General information**

Wisdom Holdings Group (the “Company”) was incorporated in the Cayman Islands on March 21, 2012 as an exempted company with limited liability under the Companies Law, Cap 22 (2012 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) is principally engaged in the provision of advertising services, organization and management of sports-related competitions and other marketing events, and program production and related services in the People’s Republic of China (the “PRC” or “China”) (“the Listing Business”).

**1.2 Reorganization**

Prior to the incorporation of the Company and the completion of the reorganization steps as described below (the “Reorganization”), operations of the Listing Business was carried out by Beijing Wisdom Media Holding Co., Limited (hereinafter “Beijing Wisdom Media”) and its subsidiaries, which were incorporated in the PRC. The companies comprising the Listing Business are under the control of Ms. Ren Guozun (Ms. Ren, the “Controlling Shareholder”).

In preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), the Group underwent the Reorganization to transfer the Listing Business to the Company:

- On March 16, 2012, Queen Media Co., Ltd. (“Queen Media”), Top Car Co., Ltd. (“Top Car”) and Lucky Go Co., Ltd. (“Lucky Go”) were incorporated as investment holding companies in the British Virgin Islands (the “BVI”). Queen Media is wholly-owned by the Controlling Shareholder. Top Car is 88.42% owned by the Controlling Shareholder, and two individual shareholders of Beijing Wisdom Media own the remaining 11.58% interests. Lucky Go is 35.57% owned by the Controlling Shareholder, and thirteen individual shareholders of Beijing Wisdom Media own the remaining 64.43% interests.
- On March 21, 2012, Queen Media, Top Car and Lucky Go incorporated the Company as an investment holding company in the Cayman Islands. Upon incorporation, total authorized share capital was US\$50,000, divided into 50,000 shares with a nominal value of US\$1.00 per share, of which 5,029 shares was issued to Queen Media, 864 shares was issued to Top Car and 2,907 shares were issued to Lucky Go, representing 57.15%, 9.82% and 33.03%, respectively, of the total issued shares of the Company. Therefore, as at March 21, 2012, the Controlling Shareholder held 77.58% equity ownership in the Company through Queen Media, Top Car and Lucky Go, and the remaining 22.42% equity ownership was held by the other individual shareholders.
- On June 28, 2012, the Company issued 1,000 shares to the Controlling Shareholder. In July 2012, the Controlling Shareholder transferred these 1,000 shares to Avance Holdings Limited and the Company issued 100 shares each to Guan Xin Investments Limited and Merits Gain Investments Ltd, respectively. In July 2012, certain shareholders of Lucky Go also transferred 600, 200, 200, 200, 100 and 100 shares of the Company to Joy Thought Holdings Limited, New Kingleader Holdings Limited, Horoy Enterprise Holdings Limited, Horoy International Holdings Limited, Simplicio Universal Limited and Sunny Stone Limited, respectively. At the conclusion of these transactions, the Controlling Shareholder held 62.92% equity ownership in the Company and the remaining shareholders held 37.08% equity ownership in the Company.



- On April 2, 2012, Torch Media Co., Ltd. (“Torch Media”) was incorporated as a limited liability company in BVI with an authorized share capital of US\$50,000 divided into 50,000 shares of nominal value of US\$1.00 each. One ordinary share of US\$1.00 was issued to the Company on the same date. Since the date of establishment, Torch Media has been a wholly-owned subsidiary of the Company.
- On April 23, 2012, Auto Culture Group Holdings Limited (“Wisdom HK”) was incorporated as a limited liability company in Hong Kong, with an authorized share capital of HK\$10,000 divided into 10,000 ordinary shares with a nominal value of HK\$1.00 each. One ordinary share of HK\$1.00 was issued to the Torch Media on the same date. Since the date of establishment, Wisdom HK has been a wholly-owned subsidiary of Torch Media.
- On July 6, 2012, Wisdom HK incorporated Beijing Wisdom Culture Co., Ltd. (“Wisdom Culture”) as a wholly-owned foreign enterprise in the PRC. On August 3, 2012, Wisdom Culture incorporated Zhejiang Wisdom Car Culture Advertising Co., Ltd. (“Zhejiang Wisdom Advertising”) and Zhejiang Wisdom Sports Culture Co., Ltd. (“Zhejiang Wisdom Sports”) as its wholly-owned subsidiaries. On April 3, 2013, Wisdom Culture incorporated Zhejiang Wisdom Advertising Co., Ltd. (“Zhejiang Weishide Advertising”) as its wholly-owned subsidiary.
- On June 24, 2013, Wisdom Culture entered into a series of contractual arrangements with Beijing Wisdom Media and its direct shareholders, comprising of the exclusive consulting and service agreement, irrevocable power of attorney, exclusive business operating agreement, exclusive option agreement and share pledge agreement (collectively the “Structured Contracts”). The arrangements of the Structured Contracts enable Wisdom Culture to exercise effective control over Beijing Wisdom Media and obtain substantially all residual economic benefits of Beijing Wisdom Media. Details of the Structured Contracts are disclosed in the Prospectus section titled “History and Reorganization — Reorganization — Structured Contracts”.

Upon completion of the Reorganization, the Company became the ultimate holding company of the Group.

As of the date of this report, the Company has direct and indirect interests in the following entities:

Company name	Place and date of incorporation/ registration	Nominal value of issued ordinary share/ paid-up capital	Attributable equity interest		Principal activities	Note
			Direct	Indirect		
Torch Media Co., Ltd.	BVI April 2, 2012	1 ordinary share of US\$1.00	100%	—	Investment holding	(i)
Auto Culture Group Holdings Limited	Hong Kong April 23, 2012	1 ordinary share of HK\$1.00	—	100%	Investment holding	(i)
Beijing Wisdom Culture Co., Ltd	PRC July 6, 2012	US\$500,000	—	100%	Investment holding	(i)
Beijing Wisdom Media Holding Co., Limited	PRC December 26, 2006	RMB60,000,000	—	100%	Program production and related services	(i)
Zhejiang Wisdom Car Culture Advertising Co., Ltd.	PRC August 3, 2012	RMB10,000,000	—	100%	Advertising services	(i)
Zhejiang Wisdom Sports Culture Co., Ltd.	PRC August 3, 2012	RMB10,000,000	—	100%	Event organization and related services	(i)
Zhejiang Weishide Advertising Co., Ltd.	PRC April 4, 2013	RMB10,000,000	—	100%	Advertising and related services	(i)

Company name	Place and date of incorporation/ registration	Nominal value of issued ordinary share/ paid-up capital	Attributable equity interest		Principal activities	Note
			Direct	Indirect		
<b>Subsidiaries of Beijing Wisdom Media Holding Co., Limited:</b>						
Beijing Car Culture Advertising Co., Ltd.	PRC August 25, 2010	RMB5,000,000	—	100%	Advertising services	(i)
Shanghai Zhizhen Media Co., Ltd.	PRC July 10, 2007	RMB500,000	—	100%	Advertising services	(i)
Guangzhou Qibu Media Co., Ltd.	PRC December 24, 2009	RMB3,000,000	—	100%	Event organization and related services	(ii)
Beijing Xinchuang Branding Co., Ltd.	PRC January 25, 2011	RMB1,000,000	—	100%	Advertising and related services	(i)
Beijing Wisdom Leadership Sports Culture Co., Ltd.	PRC January 25, 2011	RMB1,000,000	—	100%	Dormant	(i)

*Notes:*

- (i) No audited financial statements have been prepared as these companies are either newly incorporated or they are incorporated in jurisdictions which do not have any statutory audit requirements.
- (ii) The statutory financial statements of this company for the year ended December 31, 2010 was audited by RSM CPAs. For the year ended December 31, 2011 and 2012, this company was not subject to statutory audit.

The English names of certain companies represented the best effort by the management of the Group in translating their Chinese names as they do not have official English names.

### 1.3 Basis of presentation

Immediately prior to the Reorganization, the Listing Business was carried out by Beijing Wisdom Media and its subsidiaries, which were under the control of the Controlling Shareholder. Pursuant to the Reorganization as mentioned in Note 1.2 above, the Structured Contracts enable Wisdom Culture, a wholly owned subsidiary of the Company, to exercise effective control over Beijing Wisdom Media and its subsidiaries and to obtain substantially all residual economic benefits of Beijing Wisdom Media and its subsidiaries. Accordingly, Beijing Wisdom Media and its subsidiaries, and thus the Listing Business is under the effective control of the Company through the Structured Contract arrangements. The Company has not been involved in any other business prior to the Reorganization and does not meet the definition of a business. The Reorganization is merely a reorganization of the Listing Business and does not result in any changes in the substance, management and Controlling Shareholder of the Listing Business before and after the Reorganization. Accordingly, the combined financial information of the companies now comprising the Group is presented using the carrying values of the Listing Business under Beijing Wisdom Media and its subsidiaries for all periods presented. For the purpose of this report, the Financial Information of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340, *Prospectuses and the Reporting Accountant*, issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). With the completion of the Reorganization on June 24, 2013, Beijing Wisdom Media will effectively become an indirect subsidiary of the Company and the Group will then consolidate the financial results of Beijing Wisdom Media and its subsidiaries.

## 2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of the combined financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial statements, are disclosed in Note 3 below.

As of the date of this report, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to the Group’s operations but not yet effective for annual accounting period beginning January 1, 2013, and which have not been early adopted by the Group.

		<b>Effective for annual periods beginning on or after</b>
HKFRS 9 (Amendment)	<i>Financial instruments</i>	January 1, 2015
HKFRS 7 (Amendment)	<i>Mandatory effective date and transition disclosures</i>	January 1, 2015
HKFRS 9	<i>Financial instruments</i>	January 1, 2015
HKFRS 10	<i>Consolidated financial statements</i>	January 1, 2013
HKFRS 11	<i>Joint arrangements</i>	January 1, 2013
HKFRS 12	<i>Disclosure of interest in other entities</i>	January 1, 2013
HKFRS 13	<i>Fair value measurements</i>	January 1, 2013
HKAS 19 (Revised 2011)	<i>Employee benefits</i>	January 1, 2013
HKAS 27 (Revised 2011)	<i>Separate financial statements</i>	January 1, 2013
HKAS 28 (Revised 2011)	<i>Investment in associates and joint ventures</i>	January 1, 2013
HKAS 32 (Amendment)	<i>Financial instruments: Presentation — Offsetting financial assets and financial liabilities</i>	January 1, 2014
HKFRS 7 (Amendment)	<i>Financial instruments: Disclosure — Offsetting financial assets and financial liabilities</i>	January 1, 2013

Management is in the process of assessing the impact of the above standards, amendments and interpretations on the combined financial statements of the Group. The adoption of the above is not expected to have a material impact on the combined financial statements of the Group.

## 2.2 Consolidation of subsidiaries

Subsidiaries are all entities, including special purpose entities, over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.3 Disposal of subsidiaries

When the Group dispose a business, resulting in loss of control, in exchange for consideration, the assets and liabilities of the disposed business is derecognized in the financial statements and any profit or loss upon disposal is recorded in the statements of comprehensive income. Any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss.

In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. Accordingly, amounts previously recognized in other comprehensive income are reclassified to profit or loss.

## 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer whom makes all strategic decisions.

## 2.5 Foreign currency translation

### (a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The combined financial statements are presented in Renminbi (RMB), which is the Company's functional currency and the Group's presentation currency.

### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of comprehensive income.

### (c) *Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

Upon combination, exchange differences arising from the translation of the net investment in foreign operations are recognized in other comprehensive income.

## 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statements of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives as follows:

Office premise	30 years
Renovation and leasehold improvements	Shorter of the remaining lease period or the estimated useful life of 5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognized within profit or loss.

## 2.7 Intangible assets

Acquired operating rights are carried at cost less amortization, which is calculated using the straight-line method to allocate the cost of the operating rights over its useful life of ten years.

Acquired computer software is capitalized based on the cost incurred to acquire and bring to use the specific software, and amortized over estimated useful lives of five years. Subsequent costs associated with maintaining the computer software programmes are expensed as incurred.

## 2.8 Capitalized program costs

Capitalized program costs include accumulated direct costs incurred to develop and produce television programs which have yet to be broadcasted. Capitalized program costs include costs related to complete programs and costs related to programs still in production. These costs are capitalized when it is probable that future economic benefits associated with the programs will flow to the Group and when such costs can be reliably measured. Capitalized program costs are subsequently recognized in cost of services when the related programs are broadcasted.

## 2.9 Prepayments and other current assets

Prepayments primarily consist of prepayments for advertising time slots and, to a lesser extent, prepaid costs to other suppliers. Prepayments related to advertising time slots and other media-related suppliers are recognized as cost of services when the related revenue is recognized. Prepaid costs to non-media suppliers are recognized as expenses when the related service has been performed.

Other current assets primarily consist of capitalized costs related to the Company's initial public offering.

## 2.10 Receivables

Receivables include trade receivables, notes receivables and other receivables that are due from customers, suppliers or other vendors in the ordinary course of business. If collection of receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

### **2.11 Cash and cash equivalents**

Cash and cash equivalents at each balance sheet date include cash on hand, deposits held at call with banks and short-term bank deposits with original maturities of three months or less.

Term deposits held during a period are converted to deposits held at call at each reporting period end. Accordingly, no term deposits are recognized on the Group's combined balance sheets.

### **2.12 Share capital and share premium**

Share capital as at each balance sheet date represents the ordinary shares of the Company. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium represents the considerations exceeding the ordinary shares with carrying value.

### **2.13 Payables**

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers or other vendors. Trade and other payables are classified as current liabilities if payment is due within one year or less. Otherwise, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### **2.14 Current and deferred income tax**

The tax expenses for the period is comprised of current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### *(a) Current income tax*

The current income tax charge is calculated based on tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

### **2.15 Employee benefits**

Entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organized by relevant municipal and provincial government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

### **2.16 Contingencies**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not recognized in the combined financial statements of the Group, but is to be disclosed in the notes to the combined financial statements by the Group, unless the possibility of an outflow of resources embodying economic benefits is remote.

### **2.17 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the performance of services in the ordinary course of the Group's activities. Revenue is shown net of related sales-related tax, refunds and discounts, and after eliminating sales within the Group. For the years ended December 31, 2010, 2011 and 2012, sales-related tax amounted to RMB10,139,057, RMB14,157,728 and RMB19,506,898, respectively.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement. Service fees prepaid by customers where the relevant services have not been rendered are deferred and recognized as advance from customers in the Group's combined balance sheets.

*(a) Advertising services*

Revenue from advertising services is primarily derived from advertising service fees related to arranging broadcast of the customers' advertisement during selected media suppliers' television programs. Revenues from advertising services are recognized net of rebates, ratably over the period in which the services are performed. In addition, the Group also performs advertising related services, including integrated designing, marketing and branding services, for customers. Revenue from these advertising related services is recognized when the service has been performed and accepted by the customer.

The Group contracts separately with its customers and the media suppliers, and is responsible for the payments to the media suppliers and collections from the customers. In consideration of whether the Group should recognize revenue on a gross or net basis, the Group assessed the terms of its customer agreements and gave further consideration to other key indicators, such as inventory risk, latitude in establishing price, variability of its earnings, ability to change the programs media supplier provides and credit risk to the vendor. Where most of the indicators suggested that the Group acts as a principal when providing the service, bears inventory risk, has latitude in establishing price and has exposure to the significant risks and rewards, revenue is recognized on a gross basis. Where the Group acts in capacity of an agent rather than as the principal in a transaction, does not bear any inventory risk and meets other net basis indicators, revenue recognized is the net amount of commission made.

*(b) Program production and related services*

Revenues from program production and related services are primarily derived from directing, filming and producing automobile related video programs for television stations, including selling advertisements arising from the produced programs. The Group also earns revenue from producing video content for specific customers on an ad-hoc basis. Revenues from program production and related services are recognized in the period in which the video contents have been delivered to and accepted by the customer, provided that no additional performance obligations remain.

*(c) Event organization and management services*

Revenue from event organization and management services is mainly derived from the organizing and managing of domestic and international sports-related competitions and providing other related marketing services in conjunction with these events. Revenue from event organization and related services is recognized at the conclusion of the events, which is the point in time when all service has been provided.

**2.18 Interest income**

Interest income is recognized using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognized using the original effective interest rate.

**2.19 Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. The Group recognize income from government grants in other gain, net.



## 2.20 Share-based payment

The Group operates equity-settled share-based compensation plans under which the entity receives services from employees and other service providers as consideration in exchange for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instrument granted:

- i. including any market performance conditions (e.g. an entity's share price);
- ii. excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period) and;
- iii. including the impact of any non-vesting conditions (e.g. requirement for employees to save).

Total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, or when the terms of the equity instruments have been met. In addition, in some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date. In cases where these share-based payment instruments contain non-market vesting conditions, the entity revises its estimates of the number of options that are expected to vest, based on the probability occurrence of the non-market vesting conditions, at each reporting period end. It recognizes the impact of the revision to original estimates, if any, in the combined statements of comprehensive income, with a corresponding adjustment to equity.

## 2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease.

## 2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

## 3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

### 3.1 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test, and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

### 3.2 Impairment of receivables

The Group's management determines the provision for impairment of trade, notes and other receivables based on an assessment of the recoverability of the receivables. The assessment is based on the credit history of its customers and other debtors, status of ongoing communication with customers and other debtors and the current market and economic conditions. Assessment of these facts and evidence require the use of judgement. Management reassesses the provision at each balance sheet date based on the aforementioned criteria. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for receivables.

### 3.3 Current and deferred income tax

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and taxation provisions in the period in which such estimates is changed.

### 3.4 Structured contracts

Wisdom Culture entered into the Structured Contracts with Beijing Wisdom Media and its shareholders, and because of the Structure Contracts, Wisdom Culture has effective control over Beijing Wisdom Media and its subsidiaries. The understanding of the terms of the Structure Contracts, relationship between parties and control obtained by Wisdom Culture from the Structured Contracts require significant judgment. Management has consulted with its PRC legal counsel in assessing Wisdom Culture's ability to control Beijing Wisdom Media under PRC laws and regulations. Any changes in PRC laws, rules and regulations that affect Wisdom Culture's ability to control Beijing Wisdom Media might preclude the Group from consolidating Beijing Wisdom Media and its subsidiaries in the future.

### 3.5 Revenue recognition

The Group determines whether to recognize revenue on a gross or net basis by assessing the terms of the service agreements, the facts and circumstances of the relationship with its customer and other specific indicators (see Note 2.17(a)). These indicators are subjective in nature and require judgment from management.

## 4. Financial Risk Management

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest-rate risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's senior management team, finance and legal department under policies approved by the Chief Executive Officer.

#### (a) Foreign exchange risk

The Group mainly operates in the PRC and substantially all of the Group's transactions, assets and liabilities are denominated in RMB. The Group has a few foreign currency denominated monetary assets and monetary liabilities. Therefore, the Group is not exposed to significant foreign exchange risk.

#### (b) Cash flow and fair value interest-rate risk

The Group does not have any significant interest-bearing financial assets or financial liabilities except for cash deposit held in banks, details of which are disclosed in Note 17 of Section II below. Interest rates of cash deposits held in banks was fixed at 0.3% for the year ended December 31, 2010 to 0.5% for the year ended December 31, 2012. For the year ended December 31, 2012, interest rates for 7-day term deposits ranged from 1.5% to 3.3% and interest rates for 100-day term deposits was fixed at 3.1%. The Group did not have any term deposits in 2010 and 2011. Management considers that interest-rate risk exposure of the Group is insignificant and no sensitivity analysis is presented thereon.

#### (c) Credit risk

The carrying amounts of bank deposits, trade and notes receivables and other receivables included in the combined financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at December 31, 2010, 2011 and 2012, the Group's bank deposits that were placed in commercial banks of the PRC with minimum external rating of 'A' (as sourced from the rating provided by Moody and Standard & Poor) was 97.4%, 97.5% and 98.6%, respectively, of total cash in bank. The remaining deposits were placed in regional commercial banks. Management does not expect any losses arising from non-performance by any of the banks with which it has deposits.

Trade receivables are comprised of unpaid service fees from customers. Notes receivables are comprised of bank acceptance notes received from customers to settle trade receivables. These notes generally mature within three months and have little credit risk as they are guaranteed by the banks. Generally, the Group does not offer any credit terms on trade receivables and has adopted a policy of only dealing with creditworthy counterparties. Credit sales are made only from time to time to select customers with long-term business trading history. Based on past experience, the customer payment default rate is low. Therefore, the Group considers its trade and notes receivables to have no significant exposure to credit risk.

Other receivables primarily consist of deposit with media suppliers, advances to employees and other deposits, such as operating lease rental deposits. Deposit with media suppliers, whom are all reputable and creditworthy counterparties, comprised of 88.7%, 94.9% and 89.3% of other receivables as at December 31, 2010, 2011 and 2012. Advance to employees are granted to employees for company purposes arising from routine business transactions and are repayable upon demand. Based on management experience, probability of uncollection is low. Accordingly, credit risk on other receivables is determined to be low.

*(d) Liquidity risk*

Cash flow forecasting is performed by the Group's finance department, which monitors rolling forecasts of the Group's liquidity requirements to ensure sufficient cash to meet the Group's operating needs while maintaining sufficient headroom at all times. Such forecasting takes into consideration the Group's payables, commitments and other potential cash outflows.

The table below analyzes the Group's financial liabilities by relevant maturity groupings based on the remaining period at the end of each reporting period.

**As at December 31, 2010:**

	<b>Within one month or on demand</b>	<b>Over one month but less than 3 months</b>	<b>Over 3 months</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables .....	33,291	316	—	33,607
Other payables .....	2,902	—	—	2,902
Amounts due to related parties .....	1,483	—	—	1,483
Total .....	<u>37,676</u>	<u>316</u>	<u>—</u>	<u>37,992</u>

**As at December 31, 2011:**

	<b>Within one month or on demand</b>	<b>Over one month but less than 3 months</b>	<b>Over 3 months</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables .....	83,819	1,341	—	85,160
Other payables .....	8,737	—	—	8,737
Amounts due to related parties .....	1,396	—	—	1,396
Total .....	<u>93,952</u>	<u>1,341</u>	<u>—</u>	<u>95,293</u>

**As at December 31, 2012:**

	<b>Within one month or on demand</b>	<b>Over one month but less than 3 months</b>	<b>Over 3 months</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables .....	29,390	1,374	—	30,764
Other payables .....	13,042	—	—	13,042
Amounts due to related parties .....	3,817	—	—	3,817
Total .....	<u>46,249</u>	<u>1,374</u>	<u>—</u>	<u>47,623</u>

## 4.2 Capital risk management

The Group manages the capital structure, primarily consisting of cash and cash equivalents and equity, and makes adjustments to it in light of changes in economic conditions. The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return on capital to shareholders, issue new shares or obtain bank borrowings.

The Group also monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debt divided by shareholder's equity. Net debt is calculated as total borrowings, including current and non-current borrowings as shown in the balance sheets, less cash and cash equivalents. Shareholders' equity comprises all components of equity as shown in the balance sheet. The Group's strategy is to maintain the debt-to-equity ratio at a reasonable level. As at December 31, 2010, 2011 and 2012, the Group's debt-to-equity ratio was nil as the Group did not have any borrowings.

Management consider that the Group's capital risk is minimal as the Group had cash and cash equivalents of approximately RMB44,371,199, RMB136,480,437 and RMB99,450,154 as at December 31, 2010, 2011 and 2012, respectively. The Group had no outstanding bank loans, overdrafts or other borrowings as at December 31, 2010, 2011 and 2012.

## 4.3 Fair value estimation

The table below analyzes financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

During the Relevant Periods, the Group did not have any financial assets or financial liabilities that were measured at fair value. The carrying amounts of the Group's current financial assets, including cash and cash equivalents, trade and notes receivables, prepayments and other current assets, other receivables and amounts due from related parties, and the Group's current financial liabilities including trade payables, advance from customers, tax payables, other payables, and amounts due to related parties, approximate their fair values due to their short maturities.

## 5. Segment Reporting

The Chief Executive Officer is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Chief Executive Officer for the purposes of allocating resources and assessing performance.

The Chief Executive Officer considers the business from three operating segments: advertising services, event organization and related services and program production and related services.

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended December 31, 2010 is as follows:

	Advertising services	Program production and related services	Event organization and related services	Headquarters (Unallocated)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers .....	237,315	27,449	33,405	—	298,169
Cost of services .....	(178,415)	(15,970)	(7,324)	—	(201,709)
— Depreciation and amortization .....	(356)	(317)	(63)	—	(736)
Gross profit .....	58,900	11,479	26,081	—	96,460
Selling and distribution expenses .....				(8,968)	(8,968)
General and administrative expenses .....				(10,743)	(10,743)
Interest income .....				168	168
Finance costs .....				(19)	(19)
Other gain, net .....				344	344
Income tax expenses .....				(19,837)	(19,837)
Net income .....					<u>57,405</u>

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended December 31, 2011 is as follows:

	Advertising services	Program production and related services	Event organization and related services	Headquarters (Unallocated)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers .....	377,723	56,647	37,021	—	471,391
Cost of services .....	(289,125)	(34,243)	(2,844)	—	(326,212)
— Depreciation and amortization .....	(424)	(667)	(49)	—	(1,140)
Gross profit .....	88,598	22,404	34,177	—	145,179
Selling and distribution expenses .....				(15,869)	(15,869)
General and administrative expenses .....				(15,073)	(15,073)
Interest income .....				363	363
Finance costs .....				(22)	(22)
Other gain, net .....				69	69
Income tax expenses .....				(29,116)	(29,116)
Net income .....					<u>85,531</u>

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended December 31, 2012 is as follows:

	Advertising services	Program production and related services	Event organization and related services	Headquarters (Unallocated)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers .....	444,442	58,323	54,448	—	557,213
Cost of services .....	(295,326)	(25,918)	(19,006)	—	(340,250)
— Depreciation and amortization ...	(734)	(779)	(194)	—	(1,707)
Gross profit .....	149,116	32,405	35,442	—	216,963
Selling and distribution expenses .....				(19,221)	(19,221)
General and administrative expenses ....				(21,634)	(21,634)
Interest income .....				1,675	1,675
Finance costs .....				(30)	(30)
Other gain, net .....				51	51
Income tax expenses .....				(45,828)	(45,828)
Net income .....					<u>131,976</u>

No segment assets or liabilities information is provided as the Chief Executive Officer does not review a measure of assets or a measure of liabilities by reportable segments.

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

For the year ended December 31, 2012, the Group recognized revenue from one customer amounting to RMB67,758,111, which individually represent over 10% of the Group's total revenue. The revenue is attributable to the advertising segment.

For the years ended December 31, 2010 and 2011, no individual customer contributed over 10% to the Group's total revenue.

## 6. Other Gain, Net

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Government grants .....	345	70	65
Others .....	(1)	(1)	(14)
	<u>344</u>	<u>69</u>	<u>51</u>

## 7. Expenses by Nature

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Advertising time slots and other media costs	177,205	286,975	290,271
Program production related costs	14,836	30,984	21,109
Event organizing costs	7,083	2,603	17,561
Employee benefit expenses	6,987	14,186	21,372
Entertainment expenses	1,092	2,251	949
Operating lease rentals	835	1,999	3,500
General office expenses	5,058	8,418	10,620
Travelling expenses	2,938	3,798	5,450
Depreciation and amortization	2,821	3,730	4,449
Professional fees	1,438	743	1,954
Remuneration — audit fees	775	615	2,900
Promotion related expenses	352	852	970
Total	<u>221,420</u>	<u>357,154</u>	<u>381,105</u>

## 8. Employee Benefit Expenses

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Wages and salaries	5,420	10,856	16,206
Social welfare	1,337	2,585	4,897
Other staff welfare	230	745	269
Total employee benefit expenses	<u>6,987</u>	<u>14,186</u>	<u>21,372</u>

## (a) Directors' and chief executive's emoluments

The nature of remuneration paid to executive directors for the Relevant Periods is set out below. For the Relevant Periods, all chief executives were also executive directors.

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Salaries and allowances	770	840	1,260
Social and other staff welfare costs	178	190	198
Total employee benefit expenses	<u>948</u>	<u>1,030</u>	<u>1,458</u>



The nature of remuneration paid to non-executive directors for the Relevant Periods is set out below:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Directors' emoluments .....	—	135	180

The remuneration paid to every executive and non-executive director for the Relevant Periods is set out below:

Name of Directors	December 31, 2010	
	Salaries and allowances	Social welfare
	RMB'000	RMB'000
Ms. Ren <sup>(1)</sup> .....	330	60
Mr. Sheng <sup>(1)</sup> .....	220	59
Zhang Han <sup>(1)</sup> .....	220	59
	<u>770</u>	<u>178</u>

Name of Directors	December 31, 2011		
	Directors' fees	Salaries and allowances	Social welfare
	RMB'000	RMB'000	RMB'000
Ms. Ren <sup>(1)</sup> .....	—	360	64
Mr. Sheng <sup>(1)</sup> .....	—	240	63
Zhang Han <sup>(1)</sup> .....	—	240	63
Li Yaping <sup>(2)</sup> .....	45	—	—
Chen Lei <sup>(2)</sup> .....	45	—	—
Jin Guoqiang <sup>(2)</sup> .....	45	—	—
	<u>135</u>	<u>840</u>	<u>190</u>

Name of Directors	December 31, 2012		
	Directors' fees	Salaries and allowances	Social welfare
	RMB'000	RMB'000	RMB'000
Ms. Ren <sup>(1)</sup> .....	—	540	66
Mr. Sheng <sup>(1)</sup> .....	—	360	66
Zhang Han <sup>(1)</sup> .....	—	360	66
Li Yaping <sup>(2)</sup> .....	60	—	—
Chen Lei <sup>(2)</sup> .....	60	—	—
Jin Guoqiang <sup>(2)</sup> .....	60	—	—
	<u>180</u>	<u>1,260</u>	<u>198</u>

Notes:

(1) Executive director

(2) Non-executive director

For the years ended December 31, 2010, 2011 and 2012, no director waived or has agreed to waive any emoluments, and no director received emoluments from the Group as inducement to join or upon joining the Group, or as compensation for loss of office.

*(b) Five highest paid employees*

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2010, 2011 and 2012 included three executive directors in each of the respective year. The emoluments of these executive directors are reflected in the analysis presented above. The emoluments of the remaining two individuals during the Relevant Periods are as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Salaries and allowances .....	396	608	960
Social welfare .....	82	102	66
	<u>478</u>	<u>710</u>	<u>1,026</u>

The number of highest paid non-director individuals whose emoluments for the Relevant Periods fell within the following bands:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
RMB200,000 to RMB400,000 .....	2	1	—
RMB400,001 to RMB600,000 .....	—	1	2
	<u>2</u>	<u>2</u>	<u>2</u>

*(c) Key management compensation*

For the year ended December 31, 2012, key management personnel were determined to be the executive directors and Chief Financial Officer of the Group, whom have the responsibility for planning, directing and controlling the activities of the Listing Business.

For the years ended December 31, 2011 and 2010, key management personnel were determined to be the executive directors of the companies now comprising the Group, whose compensation arrangements are disclosed above.

The compensation paid or payable to key management for employee services for the year ended December 31, 2012 is shown below:

	Year ended December 31, 2012
	RMB'000
Salaries and allowances .....	1,691
Social and other staff welfare costs .....	241
Total .....	<u>1,932</u>

**9. Finance Income and Finance Costs**

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Finance costs:			
— Bank charges .....	(19)	(22)	(30)
Finance income:			
— Interest income on short-term bank deposits .....	168	363	1,675
Finance income, net .....	<u>149</u>	<u>341</u>	<u>1,645</u>

**10. Income Tax Expenses**

The Group is subject to income tax on an entity basis on profits arising on or derived from the jurisdictions in which members of the Group are domiciled and operate.

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Current .....	19,904	29,585	45,937
Deferred .....	(67)	(469)	(109)
Total tax charge for the year .....	<u>19,837</u>	<u>29,116</u>	<u>45,828</u>

	Year ended December 31,					
	2010		2011		2012	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax .....	<u>77,242</u>		<u>114,647</u>		<u>177,804</u>	
Tax at the statutory income tax rate .....	19,322	25.0	28,661	25.0	44,451	25.0
Expenses not deductible for tax purposes .....	515	0.7	407	0.4	1,237	0.7
Tax losses not recognized .....	—	—	48	0.0	140	0.1
Tax charge at the Group's effective rate .....	<u>19,837</u>	<u>25.7</u>	<u>29,116</u>	<u>25.4</u>	<u>45,828</u>	<u>25.8</u>

## 11. Property, Plant and Equipment

	Office premise	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2010</b>					
Cost .....	28,257	1,814	6,341	—	36,412
Accumulated depreciation .....	—	(401)	(199)	—	(600)
<b>Net carrying amount .....</b>	<b>28,257</b>	<b>1,413</b>	<b>6,142</b>	<b>—</b>	<b>35,812</b>
<b>Year ended December 31, 2010</b>					
Opening net carrying amount .....	28,257	1,413	6,142	—	35,812
Additions .....	—	140	1,194	2,337	3,671
Depreciation charge .....	(1,258)	(77)	(1,237)	(237)	(2,809)
<b>Closing net carrying amount .....</b>	<b>26,999</b>	<b>1,476</b>	<b>6,099</b>	<b>2,100</b>	<b>36,674</b>
<b>At December 31, 2010</b>					
Cost .....	28,257	1,954	7,535	2,337	40,083
Accumulated depreciation .....	(1,258)	(478)	(1,436)	(237)	(3,409)
<b>Net carrying amount .....</b>	<b>26,999</b>	<b>1,476</b>	<b>6,099</b>	<b>2,100</b>	<b>36,674</b>
<b>Year ended December 31, 2011</b>					
Opening net carrying amount .....	26,999	1,476	6,099	2,100	36,674
Additions .....	26	813	2,090	1,404	4,333
Disposals .....	—	—	(16)	—	(16)
Depreciation charge .....	(1,259)	(232)	(1,606)	(524)	(3,621)
<b>Closing net carrying amount .....</b>	<b>25,766</b>	<b>2,057</b>	<b>6,567</b>	<b>2,980</b>	<b>37,370</b>
<b>At December 31, 2011</b>					
Cost .....	28,283	2,767	9,609	3,741	44,400
Accumulated depreciation .....	(2,517)	(710)	(3,042)	(761)	(7,030)
<b>Net carrying amount .....</b>	<b>25,766</b>	<b>2,057</b>	<b>6,567</b>	<b>2,980</b>	<b>37,370</b>
<b>Year ended December 31, 2012</b>					
Opening net carrying amount .....	25,766	2,057	6,567	2,980	37,370
Additions .....	—	1,139	1,413	310	2,862
Disposals .....	—	—	(52)	—	(52)
Depreciation charge .....	(1,258)	(108)	(1,977)	(727)	(4,070)
<b>Closing net carrying amount .....</b>	<b>24,508</b>	<b>3,088</b>	<b>5,951</b>	<b>2,563</b>	<b>36,110</b>
<b>At December 31, 2012</b>					
Cost .....	28,283	3,906	10,970	4,051	47,210
Accumulated depreciation .....	(3,775)	(818)	(5,019)	(1,488)	(11,100)
<b>Net carrying amount .....</b>	<b>24,508</b>	<b>3,088</b>	<b>5,951</b>	<b>2,563</b>	<b>36,110</b>

Depreciation expenses charged to the combined statements of comprehensive income for each of the years ended December 31, 2010, 2011 and 2012 amounted to RMB2,808,755, RMB3,629,736, and RMB4,083,375, respectively.

There was no property, plant and equipment of the Group pledged as security for bank borrowing as at December 31, 2010, 2011 and 2012.

## 12. Intangible Assets

	<u>Operating right</u>	<u>Software</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
<b>At January 1, 2010</b>			
Cost .....	—	17	17
Accumulated amortization .....	—	(1)	(1)
<b>Net carrying amount</b> .....	<u>—</u>	<u>16</u>	<u>16</u>
<b>Year ended December 31, 2010</b>			
Opening net carrying amount .....	—	16	16
Additions .....	—	203	203
Amortization charge .....	—	(12)	(12)
<b>Closing net carrying amount</b> .....	<u>—</u>	<u>207</u>	<u>207</u>
<b>At December 31, 2010</b>			
Cost .....	—	220	220
Accumulated amortization .....	—	(13)	(13)
<b>Net carrying amount</b> .....	<u>—</u>	<u>207</u>	<u>207</u>
<b>Year ended December 31, 2011</b>			
Opening net carrying amount .....	—	207	207
Additions .....	—	360	360
Amortization charge .....	—	(100)	(100)
<b>Closing net carrying amount</b> .....	<u>—</u>	<u>467</u>	<u>467</u>
<b>At December 31, 2011</b>			
Cost .....	—	580	580
Accumulated amortization .....	—	(113)	(113)
<b>Net carrying amount</b> .....	<u>—</u>	<u>467</u>	<u>467</u>
<b>Year ended December 31, 2012</b>			
Opening net carrying amount .....	—	467	467
Additions .....	2,500	—	2,500
Amortization charge .....	(250)	(115)	(365)
<b>Closing net carrying amount</b> .....	<u>2,250</u>	<u>352</u>	<u>2,602</u>
<b>At December 31, 2012</b>			
Cost .....	2,500	580	3,080
Accumulated amortization .....	(250)	(228)	(478)
<b>Net carrying amount</b> .....	<u>2,250</u>	<u>352</u>	<u>2,602</u>

Operating right is comprised of a ten-year exclusive operating right acquired by Beijing Wisdom Media related to organization, operation and promotion of China Classic Car Rally.

Amortization expenses charged to the combined statements of comprehensive income for each of the years ended December 31, 2010, 2011 and 2012 amounted to RMB11,986, RMB100,370, and RMB365,660, respectively.

## 13. Capitalized Program Costs

	<u>As at December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	RMB'000	RMB'000	RMB'000
Completed programs .....	—	—	4,156
Programs in production .....	—	—	519
<b>Total</b> .....	<u>—</u>	<u>—</u>	<u>4,675</u>

**14. Trade and Notes Receivables**

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade receivables .....	22,260	33,115	112,304
Notes receivables .....	—	—	15,005
Total .....	<u>22,260</u>	<u>33,115</u>	<u>127,309</u>

The aging analysis of the above trade and notes receivables, which are past due but not impaired, are as follows:

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Within 1 month .....	10,235	20,257	45,366
1 to 3 months .....	6,315	9,690	46,467
4 to 6 months .....	4,633	479	22,332
6 to 12 months .....	797	2,569	12,580
Over 12 months .....	280	120	564
	<u>22,260</u>	<u>33,115</u>	<u>127,309</u>

As of April 30, 2013, the Group collected RMB66,196,676 of its December 31, 2012 trade receivables balance from its customers. In addition, the Group also settled its notes receivables amounting to RMB15,005,200.

As at December 31, 2012 trade receivables of RMB60,000, related to one customer, was impaired and written-off. Apart from this write-off of RMB60,000, as at December 31, 2010 and 2011, no provisions or write-offs were recorded for trade receivables as management assessed that the receivables could be recovered.

**15. Other Receivables**

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Deposits with media companies .....	60,070	64,491	50,984
Advance to employees .....	6,148	3,291	4,435
Lease and other deposits .....	—	—	1,199
Events-related deposits .....	—	—	324
Others .....	1,499	208	168
Total .....	<u>67,717</u>	<u>67,990</u>	<u>57,110</u>

No provisions or write-offs was recorded for other receivables for the year ended December 31, 2010, 2011 and 2012.

**16. Prepayments and Other Current Assets**

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Prepayment for advertising time slots .....	41,530	29,085	35,732
Prepaid membership fee .....	—	—	1,456
Prepaid rent and property management fees .....	—	—	457
IPO-related service fees .....	—	—	4,357
Others .....	293	407	500
Total .....	<u>41,823</u>	<u>29,492</u>	<u>42,502</u>

**17. Cash and Cash Equivalents**

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash on hand .....	66	167	65
Cash in bank .....	44,305	136,313	99,385
	<u>44,371</u>	<u>136,480</u>	<u>99,450</u>

**18. Share Capital and Share Premium**

	Share	Share	Total
	Capital	premium	
	RMB'000	RMB'000	RMB'000
At January 1, 2012 .....	—	—	—
Issuance of shares .....	63	3,141	3,204
At December 31, 2012 .....	<u>63</u>	<u>3,141</u>	<u>3,204</u>

The company was incorporated on March 21, 2012 with an authorized capital of 50,000 ordinary shares with a nominal value of US\$1.00 each. On the date of incorporation, 8,800 shares were issued at nominal value. On June 28, 2012, 1,000 shares were issued at nominal value. On July 3, 2012, 200 shares were issued at a total consideration of US\$500,000. Accordingly, the total number of issued ordinary shares was increased to 10,000 shares with a nominal value of US\$1.00 each. Considerations in respect of issuance of shares were fully paid. Considerations exceeding the carrying value of the ordinary shares were recorded as share premium, amounting to US\$499,800 (equivalent to RMB 3,141,493).

On June 14, 2013, the shareholders of the Company resolved to approve the subdivision of each issued and unissued ordinary share of US\$1.00 each in the share capital of the Company to 4,000 shares with a nominal value of US\$0.00025 each. The shareholders also resolved to approve to increase the authorized share capital of the Company from US\$50,000 to US\$1,000,000 by the creation of an additional 3,800,000,000 shares with a nominal value of US\$0.00025 each. Accordingly, the authorized share capital of the Company became US\$1,000,000 divided into 4,000,000,000 ordinary shares with a nominal value of US\$0.00025 each, and the issued share capital of the Company become US\$10,000 divided into 40,000,000 ordinary shares with a nominal value of US\$0.00025 each.

**19. Reserves**

	<u>Statutory reserves</u>	<u>Other reserves</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>At January 1, 2010<sup>(1)</sup></b> .....	2,746	73,524	76,270
Issuance of ordinary shares upon Beijing Wisdom Media becoming a joint stock company <sup>(2)</sup> .....	—	8,628	8,628
Statutory reserves appropriation <sup>(3)</sup> .....	<u>6,961</u>	<u>—</u>	<u>6,961</u>
<b>At December 31, 2010</b> .....	<u>9,707</u>	<u>82,152</u>	<u>91,859</u>
Statutory reserves appropriation <sup>(3)</sup> .....	<u>6,457</u>	<u>—</u>	<u>6,457</u>
<b>At December 31, 2011</b> .....	<u>16,164</u>	<u>82,152</u>	<u>98,316</u>
Statutory reserves appropriation <sup>(3)</sup> .....	7,533	—	7,533
Foreign currency translation adjustment .....	<u>—</u>	<u>33</u>	<u>33</u>
<b>At December 31, 2012</b> .....	<u>23,697</u>	<u>82,185</u>	<u>105,882</u>

*Notes:*

- (1) The beginning balance of other reserve represents the combined paid-in capital of the companies and business now comprising the Group after eliminating intra-group investments.
- (2) In March 2010, Beijing Wisdom Media was restructured to a joint-stock company and increased its share capital to RMB60,000,000. Upon this reorganization, RMB8,627,677 was transferred from retained earnings to Beijing Wisdom Media's share capital.
- (3) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to shareholders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate 10% of statutory profits after income tax to statutory surplus reserves, upon distribution of its post-tax profits of the current year.  
A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations or to increase the capital of the company. In addition, a company may make contribution to the discretionary surplus reserve using its post-tax profits in addition to the 10% statutory surplus reserves requirement, as mentioned above, by passing a resolution of the board of directors.

**20. Trade Payables**

Trade payables are comprised of amounts due to suppliers for purchase of goods or services used in regular course of business. Trade payables are non-interest bearing and generally due upon demand. An ageing analysis of trade payables at the balance sheet dates is as follows:

	<u>As at December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within 1 months .....	26,009	32,277	7,441
1 to 3 months .....	6,178	37,451	1,221
4 to 6 months .....	511	13,558	2,711
Over 6 months .....	<u>909</u>	<u>1,874</u>	<u>19,391</u>
	<u>33,607</u>	<u>85,160</u>	<u>30,764</u>

**21. Other Payables**

	<u>As at December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Payroll .....	587	2,460	2,428
Dividend .....	—	4,000	5,000
IPO-related service fees .....	—	—	4,306
Others .....	<u>2,315</u>	<u>2,277</u>	<u>1,308</u>
	<u>2,902</u>	<u>8,737</u>	<u>13,042</u>



**22. Tax Payables**

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Business tax .....	993	(143)	304
Income tax .....	7,526	6,346	21,134
Value added tax .....	—	—	4,139
Other tax .....	834	(546)	2,599
	<u>9,353</u>	<u>5,657</u>	<u>28,176</u>

**23. Deferred Income Tax Assets**

The analysis of deferred tax assets is as follows:

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
Deferred tax asset to be recovered within 12 months .....	143	612	721
	<u>143</u>	<u>612</u>	<u>721</u>

The gross movement on the deferred income tax account is as follows:

	<b>Total</b>
	<b>RMB'000</b>
At January 1, 2010 .....	76
Deferred tax charged to the combined income statement during the year (Note 10) .....	67
At December 31, 2010 .....	<u>143</u>
Deferred tax charged to the combined income statement during the year (Note 10) .....	469
At December 31, 2011 .....	<u>612</u>
Deferred tax charged to the combined income statement during the year (Note 10) .....	109
At December 31, 2012 .....	<u>721</u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2012, the Group did not recognize deferred income tax assets of RMB30,187 in respect of losses amounting to RMB570,357 that can be carried forward against future taxable income. Losses amounting to RMB570,357 expire in 2017.

The Group did not have any unrecognized tax losses as at December 31, 2010 and 2011.

Pursuant to the PRC corporate income tax, 10% withholding income tax will be levied on foreign investors for dividend distributions from foreign invested enterprises' profit earned after January 1, 2008. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applied.

The Group did not recognize the deferred tax liabilities related to dividend distribution withholding tax as at December 31, 2012 as the Directors of the Company had confirmed that retained earnings up to December 31, 2012 of the Company's PRC subsidiaries will not be distributed to the Company or any of its subsidiaries in the foreseeable future. The Group did not recognize the deferred tax liabilities related to dividend distribution withholding tax as at December 31, 2010 and 2011 as the Group was solely comprised of Beijing Wisdom Media and its subsidiaries, which are not registered as PRC foreign invested enterprises.

As at December 31, 2010, 2011 and 2012, the retained earnings of the Company's PRC subsidiaries amounted to RMB60,334,678, RMB99,486,288 and RMB174,295,560, respectively. If the Company were to distributed all of its PRC subsidiaries' retained earnings to the Company, maximum deferred tax liabilities of 10% amounting to RMB6,033,468, RMB9,948,629 and RMB17,429,556 would need to be recognized as at December 31, 2010, 2011 and 2012, respectively.

#### 24. Dividends

No dividend has been paid or declared by the Company since its incorporation.

Dividends during each of the years ended December 31, 2010, 2011 and 2012 represented dividends declared by the companies now comprising the Group to the then-existing shareholders of the companies for each of the years ended December 31, 2010, 2011 and 2012, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

In January 2010, February 2011 and July 2012, Beijing Wisdom Media declared dividends amounting to RMB18,000,000, RMB40,000,000 and RMB50,000,000, respectively. No dividends were declared by any other entities or for any other periods presented.

The aggregate amounts of the dividends declared for the year ended December 31, 2010, 2011 and 2012 have been disclosed in the combined statements of comprehensive income in accordance with the Hong Kong Companies Ordinance.

#### 25. Earnings Per Share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group reorganization and the preparation of the results for each of the years ended December 31, 2010, 2011 and 2012 on a combined basis as disclosed in Note 1.3 above.

#### 26. Disposal of Equity Interest in a Subsidiary

On November 26, 2012, Beijing Xinchuang Branding Co., Ltd. ("Xinchuang Branding"), a subsidiary of Beijing Wisdom Media, disposed its entire equity interest of 51% held in Beijing Xinchuang Interaction Advertising Co., Ltd. ("Xinchuang Interaction") to the non-controlling interest. Total cash consideration received from the disposal was RMB507,955.

The carrying value of Xinchuang Interaction on the date of disposal was RMB996,812, of which RMB508,374 was held by Xinchuang Branding prior to the disposal. The effect of disposal of Xinchuang Interaction on the equity attributable to the owners of the Company during the year ended December 31, 2012 is summarized as follows:

	<u>2012</u>
	<u>RMB'000</u>
Carrying value of Group's interest disposed of .....	(508)
Consideration received from non-controlling interest .....	<u>508</u>
Gain/(loss) upon disposal .....	<u>—</u>

**27. Contingencies**

The Group has no contingent liabilities in respect of legal claims arising in the ordinary course of business.

**28. Commitments***(a) Operating lease commitments — Group as lessee*

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Within one year .....	677	836	3,473
In the second to fifth years, inclusive .....	—	13	4,105
After five years .....	—	—	—
	<u>677</u>	<u>849</u>	<u>7,578</u>

*(b) Other commitments*

In July 2012, Zhejiang Wisdom Sports entered into an agreement to obtain the operation rights related to a sports event for a fixed payment from 2012 to 2016. Total aggregate consideration for the five years event operation rights was approximately RMB7,361,076. Upon expiration of this agreement, Zhejiang Wisdom Sports has the option to extend the event rights for an additional five years.

For the year ended December 31, 2012, the Group recorded RMB1,330,816 under this agreement in its cost of services. The future payment commitments under the aforementioned agreement are as follows:

	2012
	RMB'000
2013 .....	1,414
2014 .....	1,456
2015 .....	1,539
2016 .....	<u>1,621</u>
Total .....	<u>6,030</u>

**29. Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following transactions were carried out with related parties during the Relevant Periods:

(a) *Transaction related to 2009 Investment Agreement*

In December 2009, Beijing Wisdom Media and its then-shareholders entered into an agreement (the "2009 Investment Agreement") with new investors pursuant to which the new investors acquired 10% equity interest of Beijing Wisdom Media. Under the 2009 Investment Agreement, the then-existing shareholders of Beijing Wisdom Media agreed to re-acquire the investment from the new investors at principle plus 8% annual interest if Beijing Wisdom Media does not meet certain performance conditions, including completing an initial public offering by December 31, 2014 (see Prospectus section titled *History and Reorganization — Our Operating Entities in the PRC Controlled Through the Structured Contracts — Beijing Wisdom Media*). Under a separate clause of the same agreement, the Controlling Shareholder pledged to provide cash compensation to the new investors of Beijing Wisdom Media if Beijing Wisdom Media does not achieve certain net income targets for the year ended December 31, 2009 and 2010. Subsequently, Beijing Wisdom Media achieved the net income targets for the year ended December 31, 2009 and 2010. As the agreement was among shareholders and did not result in any liabilities or risks for the Group, they did not have any accounting impact on the Group's combined Financial Information.

(b) *Revenue and cost of services transactions with related parties*

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue earned from an entity significantly influenced by a close family member of a management personnel . . . . .	9,397	—	—
Cost of services paid to an entity controlled by a shareholder . . . . .	1,417	1,000	278

Revenue earned from an entity significantly influenced by a close family member of a management personnel consist of revenues earned from providing advertising services in August 2010.

Cost of services paid to an entity controlled by a shareholder consists of fees paid to obtain magazine advertisement space.

(c) *Amounts due from related parties*

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Advance to shareholders and key employees . . . . .	2,301	473	113
Trade receivables from a entity significantly influenced by a close family member of a management personnel . . . . .	3,220	—	—
	<u>5,521</u>	<u>473</u>	<u>113</u>

Advance to shareholders and key employees are comprised of cash advances to employees whom are also shareholders or key management of the Company. These employee advances were to be used for the purchase of supplies and equipment related to the Group's program production, event organization and related services. The receivables are unsecure in nature and bear no interest. No provisions are held against the advance to shareholders and key employees.

Trade receivables from an entity significantly influenced by a close family member of a management personnel consist of trade receivables from a related party customer for advertising services provided in August 2010 (see Note 29(b)). The balance was settled in February 2011.

The Group plans to settle all amounts due from related parties before the Listing.

*(d) Amounts due to related parties*

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Loan from Controlling Shareholder .....	1,091	1,004	642
Loan from other shareholder .....	—	—	2,505
Service fees due to an entity controlled by a shareholder .....	392	392	670
	<u>1,483</u>	<u>1,396</u>	<u>3,817</u>

Loan from Controlling Shareholder consist of loan for advertising time slot deposits. This loan is non-interest bearing.

Loan from other shareholder consist of a loan for business expansion purposes. This loan is non-interest bearing and payable upon demand.

Amounts due from an entity controlled by a shareholder consist of fees payable to obtain magazine advertisement space (see Note 29(b)).

The Group plans to settle all amounts due to related parties before the Listing.

*(e) Key management compensation*

Details of key management compensations are disclosed in Note 8(c) above.

**30. Events after the Balance Sheet Date**

Save as disclosed elsewhere in this report, the following significant events took place subsequent to December 31, 2012:

- (a) In March 2013, Zhejiang Wisdom Advertising acquired the exclusive rights to advertising time slots for “News Weekly”, “World Weekly”, “World Express”, “Oriental Horizon” and “Treasure Hunt” from CCTV for January 1, 2013 to December 31, 2013.
- (b) On May 21, 2013, Beijing Wisdom Media declared dividend amounting to RMB80,000,000 to its then shareholders and out of the RMB80,000,000, RMB72,000,000 has been paid.
- (c) As described in Note 18 above, each issued and unissued ordinary share of the Company was subdivided in accordance with shareholders’ resolution effective June 14, 2013.
- (d) On June 24, 2013, Wisdom Culture entered into the Structured Contracts with Beijing Wisdom Media and its direct shareholders (see Note 1.2 above). Accordingly, Beijing Wisdom Media will effectively become an indirect subsidiary of the Company, and going forward, the Group will consolidate the financial results of Beijing Wisdom Media and its subsidiaries.

**Section III Subsequent financial statements**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2012 up to the date of this report. Save as disclosed in this report, no other dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2012.

Yours faithfully,

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong