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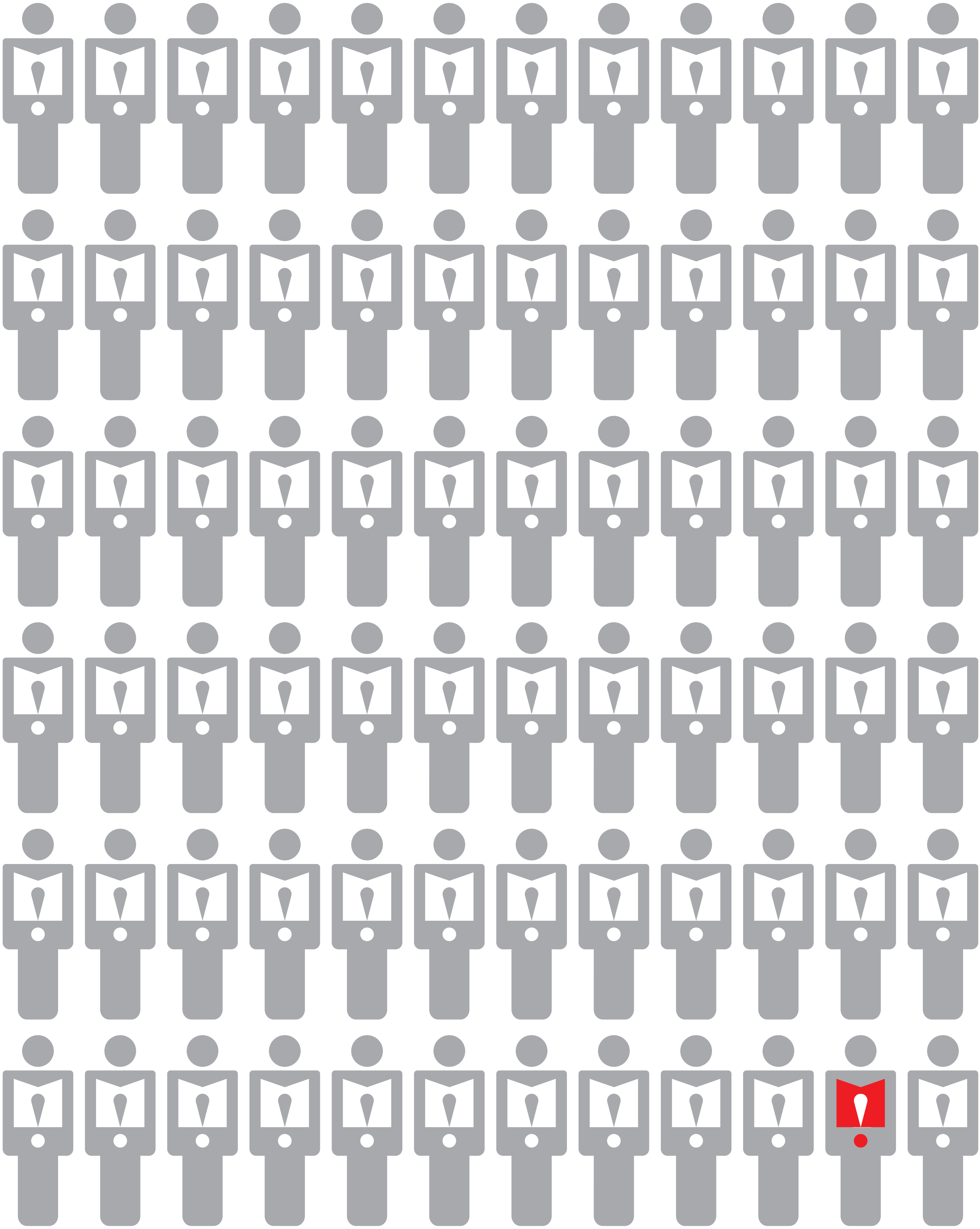
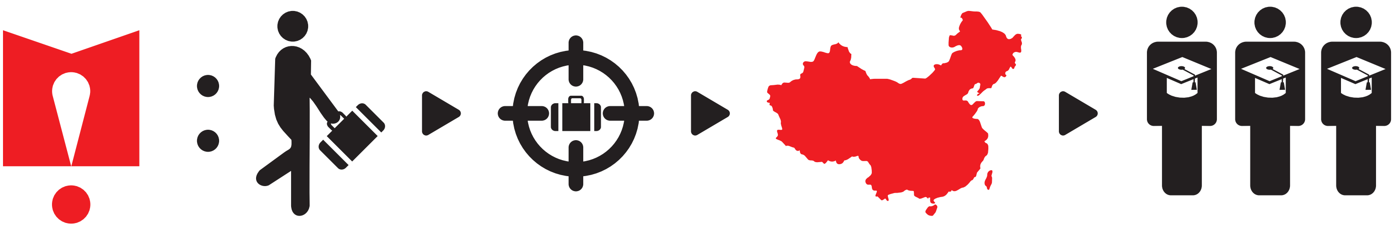
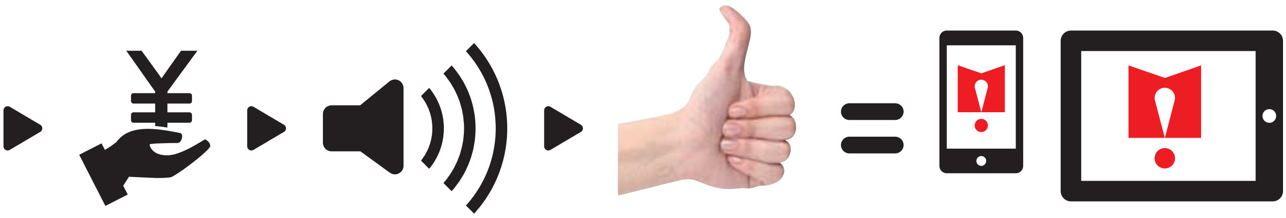
# MODERN MEDIA HOLDINGS LIMITED ANNUAL REPORT 2013



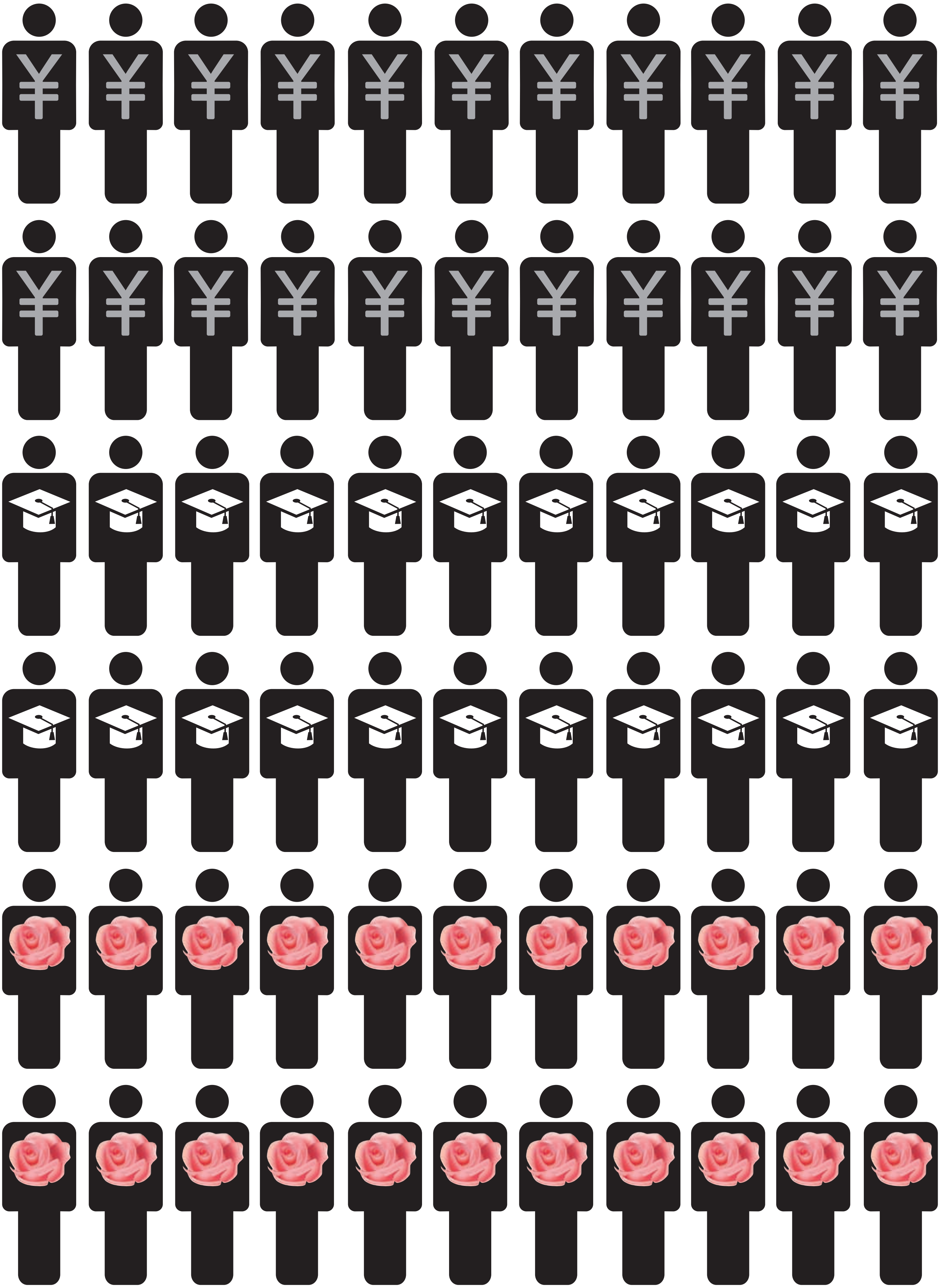
現代傳播控股有限公司 2013 年 年報



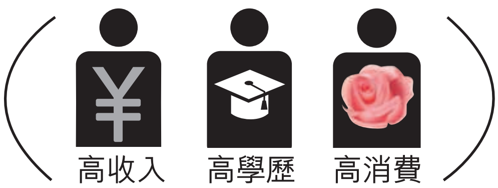
*現代傳播的傳播營銷定位為中國精眾營銷傳播第一品牌。*



*Modern Media dedicated to be the No. 1 brand in Segmented Elite Marketing Communication in China.*



現代傳播正
是根據中國消費行銷
從大眾到分眾再到精眾的演變，
在十五年前
在中國首創針對由大眾人群
分眾出來的三高消費人群




而創新出符合這樣
分眾人群用戶需求的精美的
雜誌式報紙《週末畫報》。



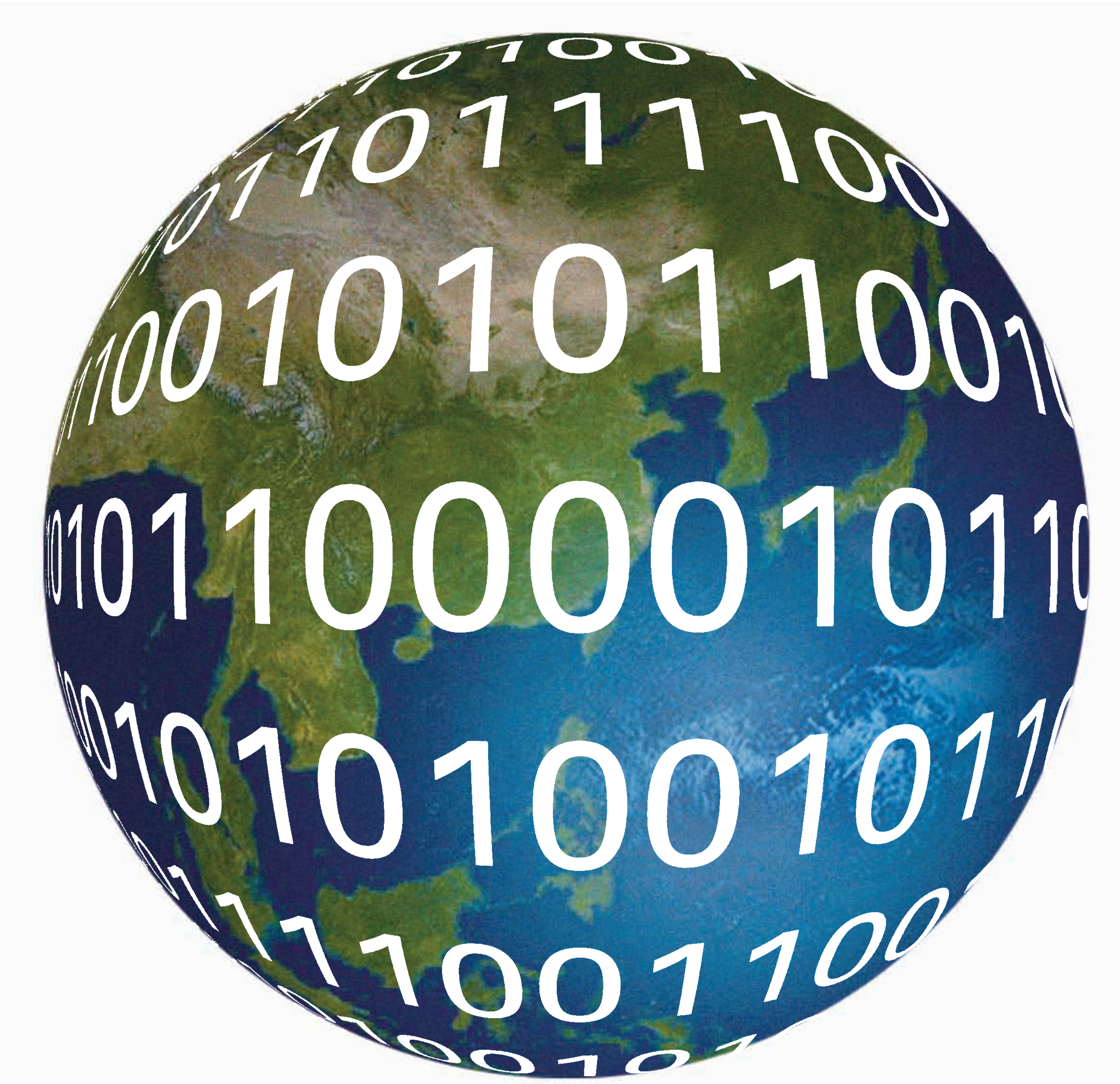
*Along side the evolutionary landscape of Chinese consumption marketing from "Mass" to "Segmented Mass" then "Segmented Elite", Modern Media launched "Modern Weekly", a finely laid-out paperzine fifteen years ago to satisfy the need of the Segmented Mass who is highly paid, highly educated, and highly spending.*


周末画报
MODERN WEEKLY
布鲁诺·马尔斯：音乐人中的音乐人
LIFE MAGAZINE
生活
月刊
100
文藝景象
THE OUTLOOK MAGAZINE
新视线
creative · inspiring · lifestyle
MAP
地图
艺术新闻
THE ART NEWSPAPER
重启青铜收藏时代
CITY MAGAZINE
號外
FASHION
X
MUSIC

隨著經濟與社會的發展，中國消費者又從分眾演進到精眾時代。
現代傳播同時又針對精眾人群的差異性強、
同質性差的特徵，開發和創新出滿足不同精眾使用者需求的媒體產品。
例如針對創意族群的《新視線》雜誌、針對樂活族群的《健康時尚》雜誌、
針對都市高端女性及家庭消費決策者的《優家畫報》、
針對新經濟的新商業領袖的《彭博商業週刊／中文版》，等等。
這些產品都是目前中國唯一與最先能夠精准向各類精眾人群國際化、時尚、高品味、社
會心的優質精眾行銷傳播平臺。


*Along with the economic and social development, Chinese consumer group is transforming from "Segmented Mass" to "Segmented Elite" Modern Media has created a portfolio of media products targeting Segmented Elite who have shown highly-differentiated needs: we offer "The Outlook Magazine" for creative class; "Modern Lady Weekly" for the high-end metro women elites, who are decision-makers of domestic spending; "LOHAS" for the health-conscious group and "Bloomberg Businessweek/China" for business elites in this new economy world. These products have formed the first and only high quality Segmented Elite focused communication platform, which can precisely serve various segmented elite groups with the DNAs of internalization, style, refined taste and social responsibility.*

**傳播國際視野** 10110100101010111011001010100101101111100111



秉承“傳播國際視野，追尋現代中國”的使命，現代傳播致力於成為中國領先的精眾數字媒體集團，我們將打造時尚風格、商業財經、文化藝術、
創意設計和健康生活五大頻道，用互聯網思維打造全新的“現代傳播”，一切從用戶的需求和體驗出發，遵循“使用者－關係－產品－流量－營收”的順序來經營。

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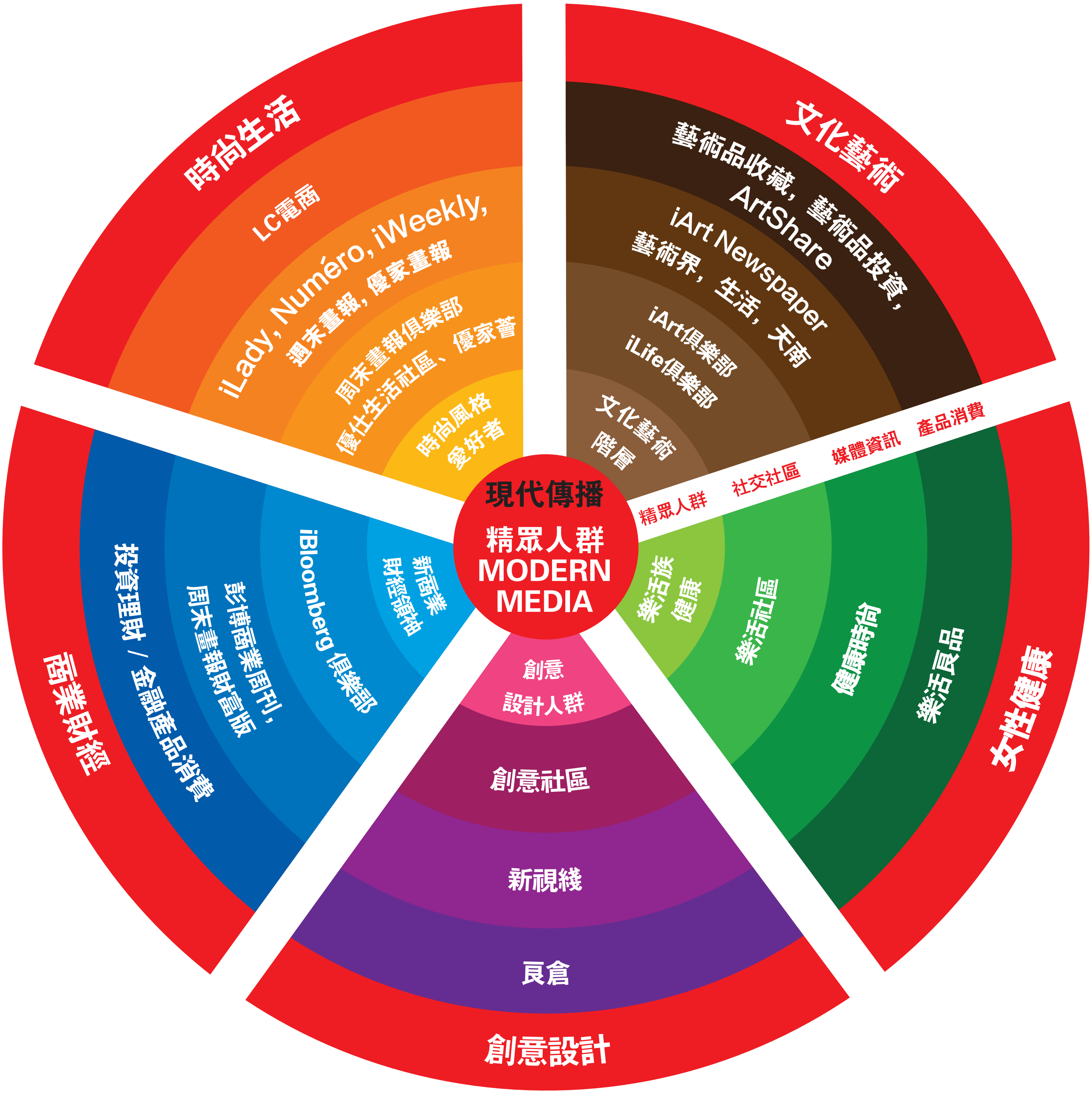
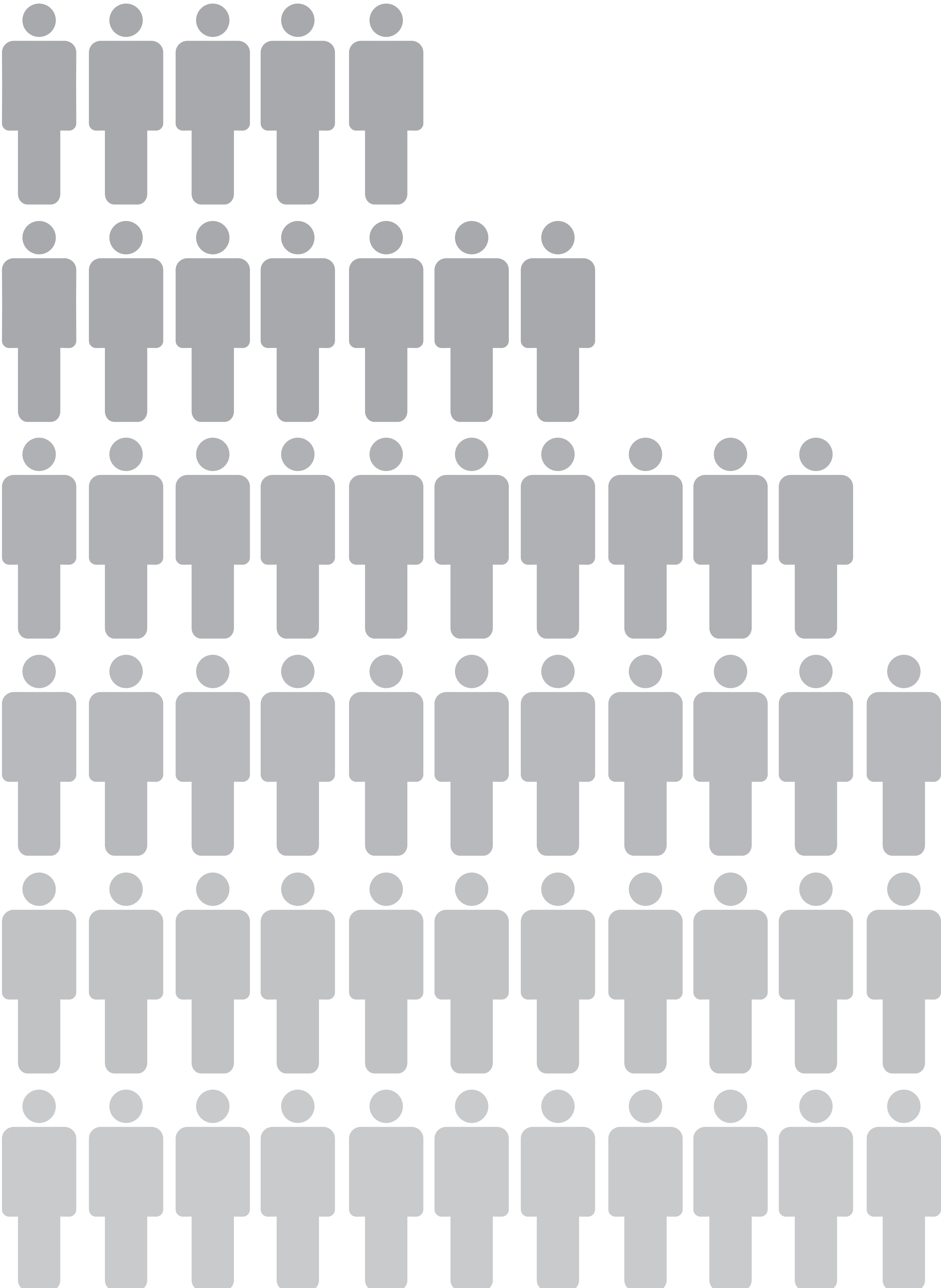


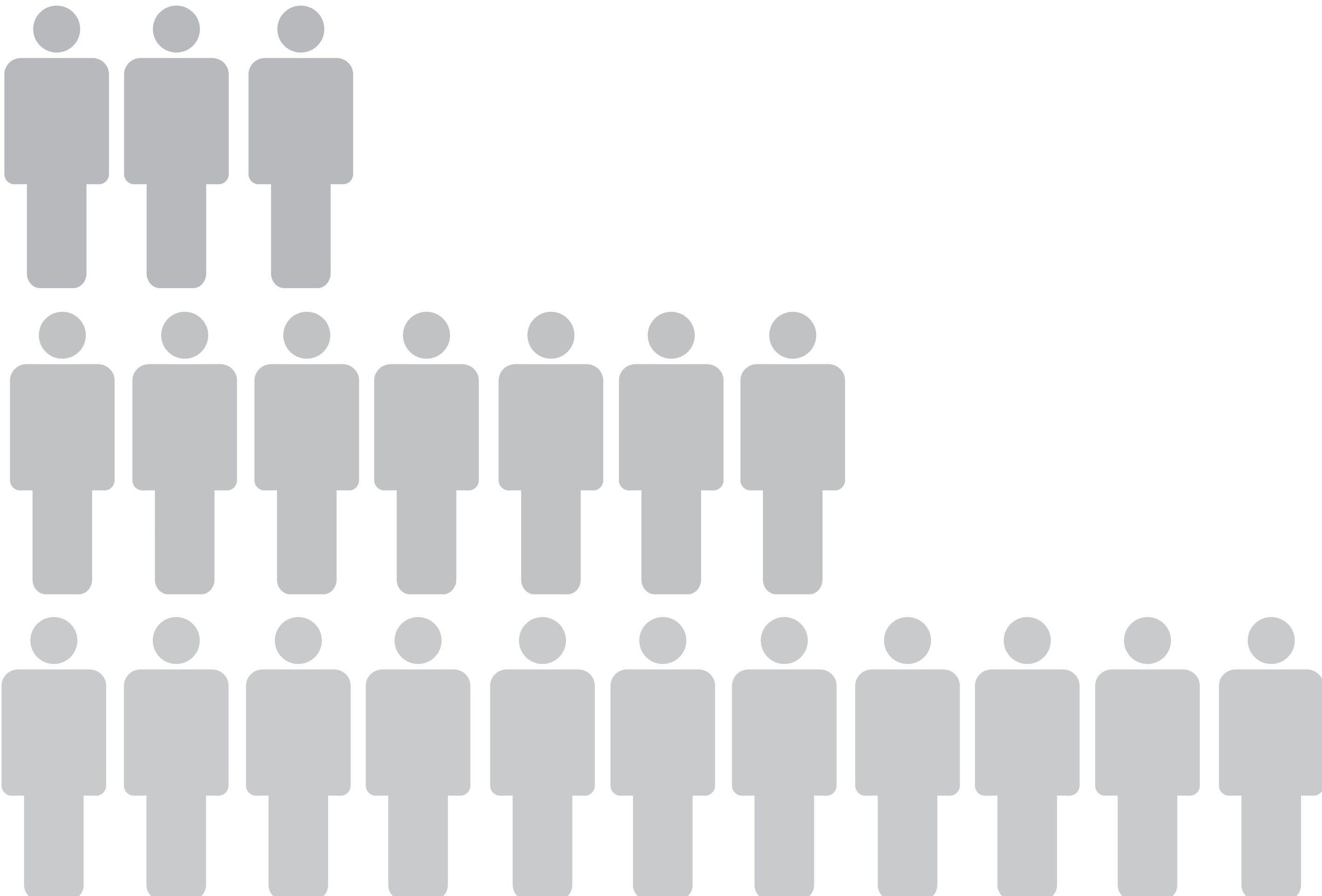

*Holding the mission of "Global Vision, Modern China", Modern Media dedicate to becoming a leading Segmented Elite focused digital media group in China. Based on the "internet mind", we aim to establish a brand new Modern Media by organizing 5 divisions, namely Modern Lifestyle, Business & Finance, Culture & Arts, Creative Design, and Women Health. We will operate the business with discipline of "User-Relation-Product-Traffic-Revenue", and place users needs and experience as top priority.*

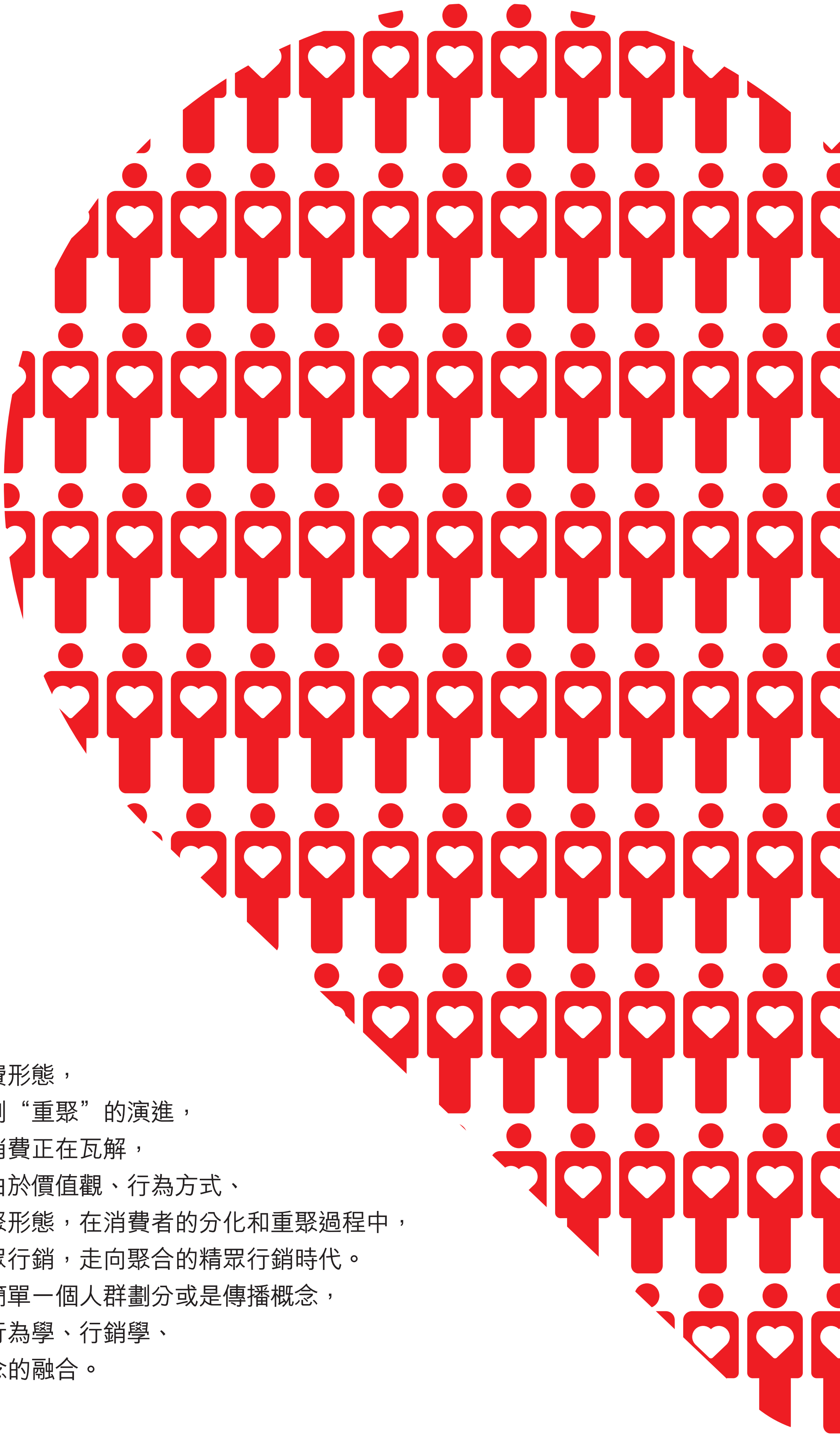
0011111010110101101101000010111001111111010 追尋現代中國



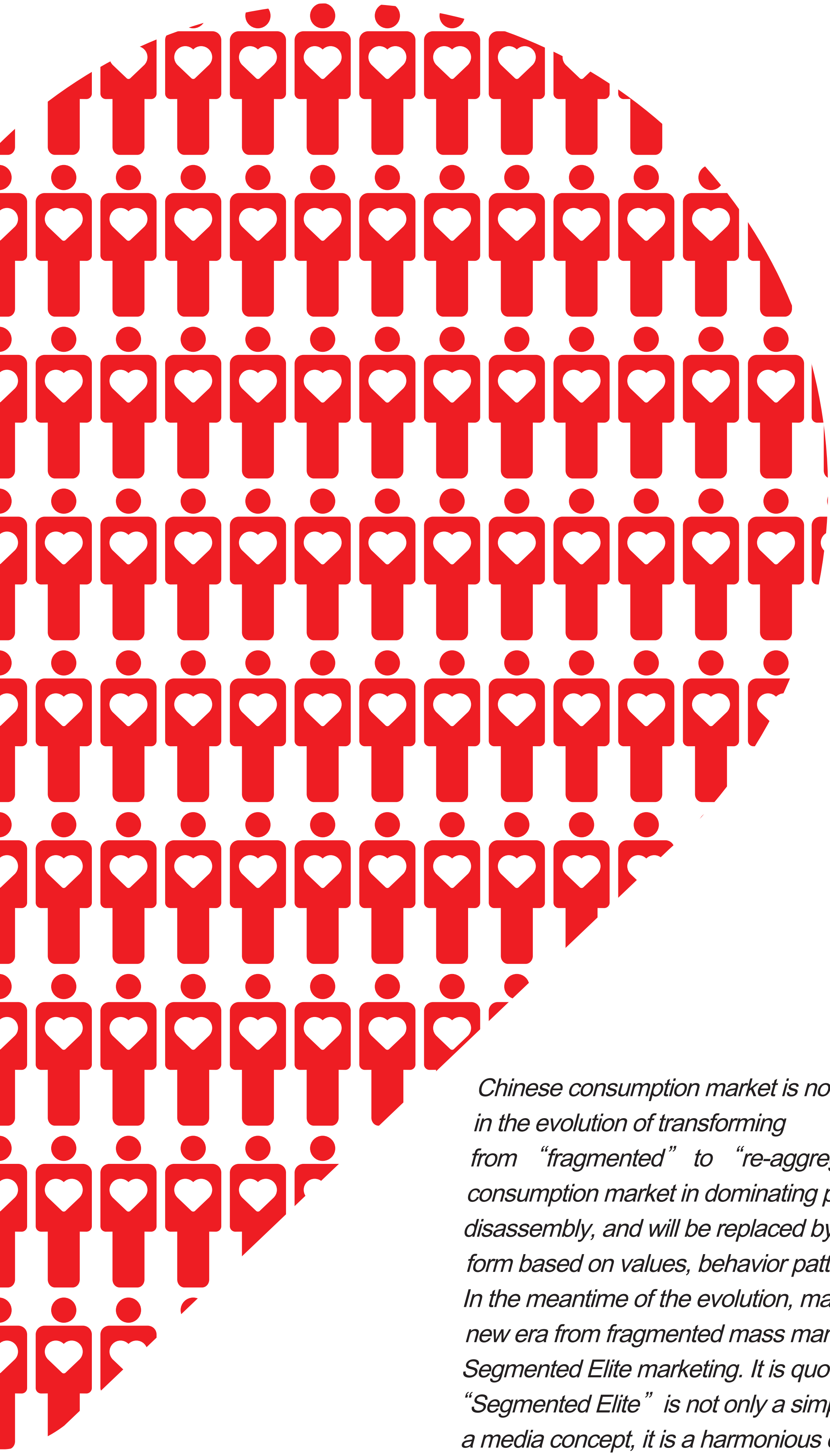
2013 年 3 月，國家廣告研究院發佈了《中國精眾行銷發展報告 2012-2013》。
研究發現，大眾媒體對於精眾人群的影響在減弱，率先影響精眾人群，
並通過精眾人群的引領與示範效應進而影響大眾將成為未來十年的行銷趨勢。

*The National Institute of Advertising issued Chinese Segmented Elite Marketing Development Report 2012-2013 in March 2013. It shows that the mass media has been losing their influence over Segmented Elite. As a result, in the next decade it would be a trend in marketing industry that marketers will first reach out to the Segmented Elites, and then leveraging the endorsement and guiding effects from the Segmented Elite to influence the mass group.*





中國的消費市場和消費形態，
正在經歷從“分化”到“重聚”的演進，
佔據主導地位的大眾消費正在瓦解，
取而代之的是消費者由於價值觀、行為方式、
消費需求等層面的重聚形態，在消費者的分化和重聚過程中，
行銷也已從分散的大眾行銷，走向聚合的精眾行銷時代。
報告指出，精眾並非簡單一個人群劃分或是傳播概念，
它是社會學、消費者行為學、行銷學、
經濟學和傳播學的概念的融合。

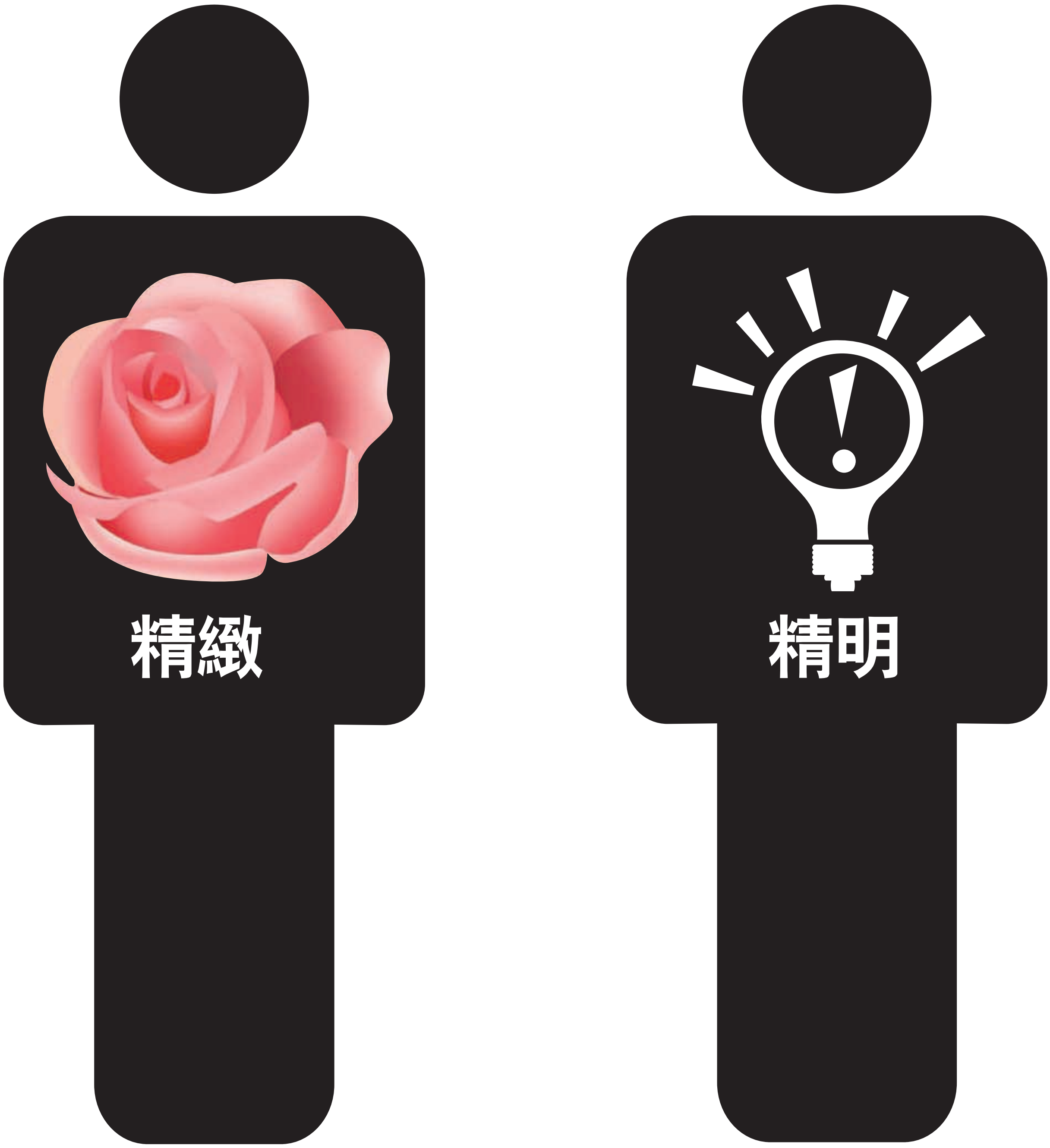


*Chinese consumption market is now in the evolution of transforming from "fragmented" to "re-aggregation". The mass consumption market in dominating position previously is under disassembly, and will be replaced by "re-aggregation" form based on values, behavior pattern and consumption needs. In the meantime of the evolution, marketing is heading into a new era from fragmented mass marketing to aggregated Segmented Elite marketing. It is quoted in the Report that "Segmented Elite" is not only a simple division of mass group or a media concept, it is a harmonious combination of Sociology, Consumer Behavior, Marketing, Economics and Communication.*


精選


精英

精眾可以分解成為四個不同層次：第一是“精選”，即精眾區別與區隔於大眾消費；
第二是“精英”，精眾具備示範性和引領性；第三是“精緻”，
精眾消費代表潮流和趨勢；第四是“精明”，精眾擁有話語權，同時有自己的主張。




*“Segmented Elite” is a dimensional concept with 4 ascending layers:*
*1st refers to “Selective”, which means the consumption habit is different from that of the Mass group; 2nd refers to “Elite”, which means the endorsement and guiding effects; 3rd refers to “Refined”, which means stylish and trendy;*
*4th refers to “Intelligent”, which means their discourse power with personal opinion.*

根據測算，中國城市的精眾消費人群佔到城市總體人群的 11.6%，並以平均每年 3%-5% 的增速增長，是企業在行銷的整個階段都要同步，甚至優先關注的先鋒人群。從“大眾”到“分眾”到“精眾”，代表的是企業行銷順應消費需求與消費群體結構性變化的創新，也是企業從粗放式經營走向精細化經營的戰略路徑的演變。

*By estimation, Segmented Elite consumer represents 11.6% of the total population of all cities in China, and keeps the growth pace at the speed of 3%-5% annually. Segmented Elite already become a most important pioneer group worth marketers' focuses in the entire marketing processes. From "Mass" to "Segmented Mass" then "Segmented Elite", the changing trend indicates marketing solution should adopt creative thinking to switch according to consumption demand as well as constructive changes of consumers. It also reflects the strategic evolution in corporate operating management from the extensive mode to the refined mode.*

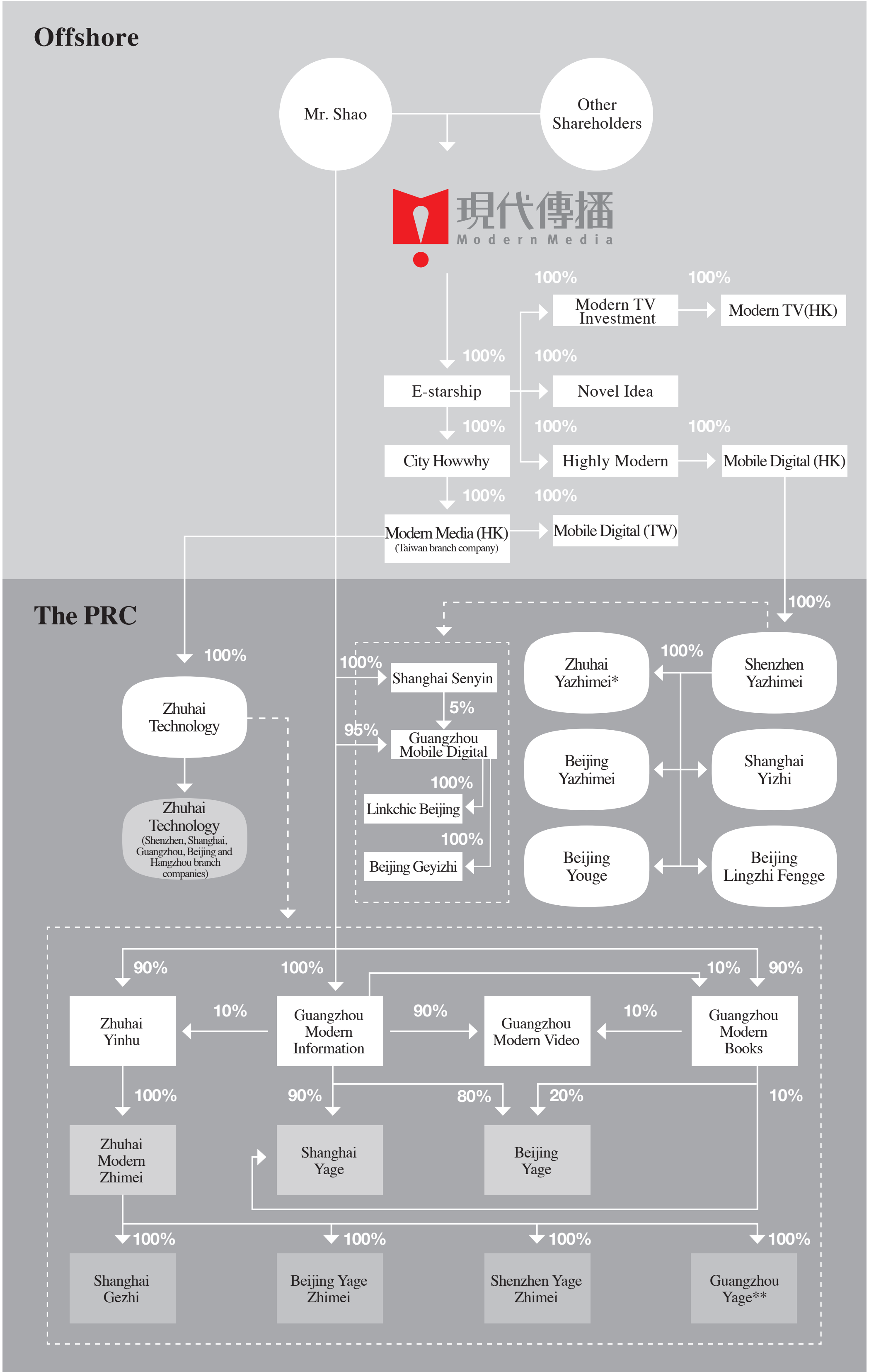

11.6%


iWeekly
Linkchic
iBloomberg
iModernlady

新生代市場監察機構認為，精眾是一種全新的行銷生態系統，
精眾行銷不僅意味著企業需要將品牌融入精眾生活方式，選擇在恰當的時間、
恰當的地點和精眾人群建立關係，同時，企業還需要改變溝通語境，
精眾的語境與大眾的語境最大的差別在於“精眾”更在意品牌的內涵、品牌與生活方式
的關聯度、輸出的傳播內容與消費者認同的價值的一致性。


*As Sinomonitor points, Segmented Elite is a brand-new marketing ecosystem.
Segmented Elite Marketing not only refers to channel corporate brands into lifestyle of
Segmented Elite, but also requires to bridge interrelationship with
Segmented Elite at the right time and location. Meantime, it also needs the company to
upgrade the communicating methodology, taken the communicating
methodology of Segmented Elite concentrate more on implication of brands,
relevance between lifestyle and brands, consistency between
smedia content and consumer recognized values.*

# Corporate Structure




* Companies acquired or set up after 31 December 2013.
** Company deregistered before 31 December 2013.

"——" denotes direct legal and beneficial ownership in the equity interest.
"- - -" denotes control through a series of contractual relationship.

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Shao Zhong *(Chairman)*

Mr. Wong Shing Fat

Mr. Li Jian

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

### Non-executive Director

Mr. Cheng Chi Kong

### Independent Non-executive Directors

Mr. Jiang Nanchun

Mr. Wang Shi

Mr. Au-Yeung Kwong Wah

Mr. Mao Xiaofeng

## AUDIT COMMITTEE

Mr. Au-Yeung Kwong Wah *(Chairman)*,
Mr. Jiang Nanchun, Mr. Wang Shi and Mr. Mao Xiaofeng

## REMUNERATION COMMITTEE

Mr. Mao Xiaofeng *(Chairman)*

Mr. Wong Shing Fat, Mr. Jiang Nanchun and
Mr. Au-Yeung Kwong Wah

## NOMINATION COMMITTEE

Mr. Wang Shi *(Chairman)*

Mr. Au-Yeung Kwong Wah, Mr. Jiang Nanchun, Mr. Mao Xiaofeng

## COMPANY SECRETARY

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

## AUTHORISED REPRESENTATIVES

Mr. Mok Chun Ho, Neil

Mr. Cui Jianfeng

# Board of Directors
# 董事會

執行董事
崔劍鋒

Cui Jianfeng
*Executive Director*

執行董事
黃承發

Wong Shing Fat
*Executive Director*

主席
邵忠

Shao Zhong
*Chairman*

執行董事
厲劍

Li Jian
*Executive Director*

執行董事
莫峻皓

Mok
Chun Ho,
Neil
*Executive
Director*

# Corporate Information (continued)

## AUDITORS

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

## LEGAL ADVISERS AS TO HONG KONG LAW

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

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1101-1103, 11th Floor
1063 King's Road, Quarry Bay
Hong Kong

## PRINCIPAL BANKERS IN HONG KONG

Hang Seng Bank Limited
Wing Lung Bank Limited

## PRINCIPAL BANKERS IN THE PRC

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

# Corporate Information (continued)

## REGISTERED OFFICE

Floor 4
Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
22nd Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

Stock code: 72

## WEBSITE

www.modernmedia.com.cn

# Chairman's Statement 主席報告

# *Chairman's Statement*

On behalf of the Board of Directors (the "Board") of Modern Media Holdings Limited ("Modern Media" or the "Company"), it is my great pleasure to announce the results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

In 2013, as the global economic recovery continued slowly, the European economies began to overcome the difficulties and bottom out while the growth of US economy has further improved. In spite of a slight improvement in the external environment and the transformation of the PRC economy with a steady growth, the growth rate of GDP of the PRC was 7.8% in 2013, which was the lowest in the last 14 years since 1999. A slowdown in the pace of economic growth in the PRC had a direct impact on the advertising industry closely related to the economic cycle. In addition, the print advertising industry was materially affected by the decrease of luxury consumption in the PRC. The overall operating environment for both advertisers and media operators was challenging and the advertising customers became more cautious about the choice of the platform for the placement of advertisements and the budget. As a result, the advertising industry recorded a negative growth during the year.

Since 2011, the Group has gradually developed from print media towards multi-media covering the three strategic businesses of print media, mobile digital media and TV. The Group adhered to the philosophy of "Spreading the word about modern China and promoting her image in the international arena" whereby the Group kept on actively developing a diversified media business by leveraging its leading position among integrated media enterprise and its far-sighted broad perspective. In 2013, the core print media business of the Group was progressing steadily while the performance of the mobile digital media and TV businesses was satisfactory. In order to facilitate a long term growth of the businesses, the Group focused on the development of new media business and successfully made progresses in expansion and development of multi-media business during the year. The Group is confident that such new business will make more contribution to the growth of the Group. Under the challenging operating environment, the Group's turnover slightly decreased by 3.7% to approximately RMB631.2 million (2012: approximately RMB655.3 million). Profit attributable to equity shareholders of the Company amounted to approximately RMB33.2 million (2012: approximately RMB65.3 million). Earnings per share amounted to RMB0.08 (2012: RMB0.15). The directors of the Company (the "Directors") proposed to declare a final dividend of HK5.0 cents for the financial year ended 31 December 2013 (2012: HK5.5 cents) per share.

"Modern Weekly", the Group's flagship magazine, continued to maintain its leading market position among lifestyle weekly magazines in the PRC with its quality contents covering international lifestyle and professional aspects. Its target readers include elites with high quality, high income and high consumption power. During the year under review, despite a recession in the advertising market, the revenue of our flagship magazine, "Modern Weekly" was only slightly affected by the economic slowdown in the PRC, and maintained No. 1 in the advertising revenue within category of lifestyle weekly magazine in the PRC. Moreover, the Group entered into a cooperation agreement with Agence France-Presse during the year. The leading market position of the Group in publication with themes of lifestyle, art and culture will be further strengthened. In addition to the cooperation with Bloomberg L.P. (U.S.), Numeró (France), The Economist (U.K.) and The New York Times (U.S.), this proposed cooperation was another key milestone in the development of the Group to become a global media enterprise in the PRC. Furthermore, the Group had launched "The Art Newspaper", a well-framed art informative newspaper, as a periodical supplement to "Modern Weekly" and "City Magazine", which has attracted new advertisement clients to our current client portfolio, such as international gallery and auction house.

The Group's another flagship magazine, "Modern Lady Weekly", is currently a high-end modern women lifestyle weekly magazine leading in sales in the PRC. "Modern Lady Weekly" is the only quality women lifestyle weekly magazine in the PRC, providing "one-stop reading" solution for the readers who pursue modern, quality and pleasure lifestyle. During the year, "Modern Lady Weekly" continued to maintain its market position and gain strong support from readers and advertising customers. It ranked No. 1 in the circulation volume among all women lifestyle weekly magazine in the PRC for five consecutive years since its launch.

During the year, "Bloomberg Businessweek/China" (Simplified Chinese edition), the Group's third flagship magazine, has achieved an outstanding advertising performance across all industry segments as shown by a double-digit growth in its advertising revenue. Based on the major success of its simplified Chinese edition in the PRC, the Group launched "Bloomberg Businessweek/Traditional Chinese edition" in Hong Kong in June 2013. Since its launch, its performance has been satisfactory. In order to enhance the cost and content efficiency of its Simplified Chinese and Traditional Chinese editions, the Group plans to unify the publication of both editions as bi-weekly magazines. Through the synergy resulting from the integration of resources, the operation process will be streamlined and the operating cost will be reduced. It is expected that the financial performance of "Bloomberg Businessweek/Traditional Chinese edition" will improve significantly in 2014.

In the new era of mobile internet, the brand clients emphasised on the development of mobile digital media. During the year, the Group put more efforts in the development of mobile digital media by increasing its investment in digital platforms, laying a solid foundation for our future growth and establishing a competitive edge in digital world. During the year, "iWeekly", the Group's flagship application completed the content reform successfully, and expanded its international vision and reader base. The number of its downloads on smartphones and tablet made a new record, reflecting it was well received and recognized by users. "iBloomberg" (Simplified Chinese edition) application continued to be welcomed by its readers and advertising customers. Its performance was encouraging with its revenue for the first year exceeding those of "iWeekly". It is expected that it will be one of the major drivers of the Group's growth in the future. In addition, the Group launched a series of new mobile applications, including "iLady" and "iBloomberg (Traditional Chinese edition)", initially forming a complete mobile publication platform. Since its launch in July 2013, "iLady", an informative platform for elite women, integrated with the shopping-guide searching engine of Linkchic.com. With such function, its users can enjoy a new mobile digital media experience of "reading, consuming and purchasing". Such innovative and direct marketing solution was also well received by advertising customers.

As a leading integrated media enterprise, the Group produced and distributed a series of TV programmes for elite groups covering contents as life, fashion, food and entertainment. Since the second half of 2012, the Group has adjusted the business strategy of TV media. Currently, it mainly provides customised productions for brand advertising customers and its revenue doubled during the year under review. The Group believes that the development of TV media business was on the right track and the TV business is an indispensable important part for constructing the multi-media platform. It is expected to reach breakeven within the next couple of years and win recognition and favour from more customers.

Looking forward to 2014, the global economic environment will remain uncertain. Although U.S. economy has shown a sign of recovery, the economic recovery will be subject to several internal and external factors. In addition, Euro zone has not yet recovered and its fundamental issues were unsettled. It is expected that the domestic consumption demand will be supported by the steady economic growth of the PRC and the acceleration of its urbanization. The PRC economy will grow steadily under the challenging circumstances and continue to outpace other emerging markets in 2014. The advertising industry will recover along with the overall market.

2014 is the year marking the beginning of our digital media business. The Group will develop a new Modern Media and enter into the digital new media market through a comprehensive reform of corporate development strategies, team culture, organisational structure, management mindset and business models. The Group plans to classify our business into five elite media platforms, including modern lifestyle platform mainly comprised of "Modern Weekly", "Modern Lady Weekly" and "Numeró"; business and finance platform mainly comprised of "Bloomberg Businessweek/China"; creative design platform mainly comprised of "TOM"; culture and arts platform mainly comprised of "LEAP" and "The Art Newspaper (Chinese version)"; and women health platform mainly comprised of "LOHAS". The existing print media, digital media, video media and social media will be integrated into corresponding elite platform according to the product characteristics. An integrated "multi-media, multi-platform and multi-format" model will be established so that each elite platform will be incorporated with multi-media contents to meet all demands of our users and achieve the best performance and influence.

With the concerted efforts of all employees as well as the long-term great support and encouragement from its clients, shareholders and business partners, the Group will flexibly cope with changes in the business environment in order to capture new opportunities, and achieve steady progress. The Group is determined to become the most respectable and influential integrated media enterprise in Greater China and is committed to generating satisfactory returns for shareholders.

**Shao Zhong**
*Chairman*

18 March 2014

# *Management Discussion & Analysis*

## RESULT SUMMARY

2013 followed the slow pace of economic development as in 2012. China's gross domestic products ("GDP") growth was at 7.8% in 2013 which maintained almost the same level as last year (2012: 7.7%) under the impacts of the accelerating inflation, slowdown in export growth and lacklustre property market. The overall operating environment for both advertisers and media operators in the region remained challenging.

In 2013, luxury brand advertisers became cautious with their advertising spending in the PRC market, because their sales were adversely affected by the government policies implemented for advocating economisation and prohibition of official expenditure. Fashion, watches and jewellery were the major sectors which substantially cut down their advertising spending. Moreover, Japanese brands also appeared to significantly reduce their advertising spending amid the tension between the PRC and Japan.

Even under the tough economic environment, the Company and its subsidiaries (the "Group") made an effort to record a single digit drop in the Group's revenue while it had a relatively larger decrease in profit in 2013. The Group's core print media remained as the major profit contributor, while its digital media and TV business performed satisfactorily in 2013. The Group's turnover for the year ended 31 December 2013 amounted to approximately RMB631.2 million, which represented a moderate decrease of 3.7% compared with that of 2012. The Group's two flagship weekly magazines, "Modern Weekly" and "Modern Lady Weekly", both recorded a slight decrease in revenue when compared with those in 2012. However, the renowned bi-weekly business magazine, "Bloomberg Businessweek/China" achieved a double-digit growth during 2013. Furthermore, the revenue of "iWeekly", one of the most popular Chinese media applications ("App"), achieved a year-on-year revenue growth of 13.8% in 2013. Despite immediate cost control initiatives had been implemented in responding to the market slowdown, the profit dilution effects caused by the drop of print media advertising revenue and the investments in launching new magazine title, such as "Bloomberg Businessweek/Traditional Chinese Edition" in Hong Kong, and a series of new mobile Apps, such as "iLady", "iArt", "iLohas" and "iFashion", had led the Group's net profit to decrease by 49.2% as compared with that of last year, amounted to approximately RMB33.2 million for 2013.

2013 was a transition period for the Group which expanded its core business to include digital-media business. Starting from 2011, the Group had strategically restructured its business into three business segments, namely print media, digital media, and television. In 2013, print media remained as the major income contributor of advertising revenue while digital media and television segments had picked up rapid momentum in generating revenue. For the year ended 31 December 2013, the segment results are as follows:

| | Print Media<br>RMB'000 | Digital Media<br>RMB'000 | Television<br>RMB'000 |
|---|---|---|---|
| **2013** | | | |
| Reportable segment revenue | 583,084 | 41,234 | 12,085 |
| Reportable segment profit/(loss) | 69,143 | (8,955) | (2,950) |
| Segment EBITDA | 86,326 | 230 | (526) |
| **2012** | | | |
| Reportable segment revenue | 630,932 | 34,202 | 5,192 |
| Reportable segment profit/(loss) | 100,738 | 12,819 | (10,214) |
| Segment EBITDA | 117,272 | 18,639 | (7,883) |

Regarding the segment results, the reportable segment revenue for print media segment in 2013 suffered an 7.6% decrease when compared with that in 2012. However, the segment earnings before interest, tax, depreciation and amortization ("EBITDA") in 2013 showed a slower downward trend when we compared it with the reportable segment profit in 2012 and in 2011. On the other hand, digital media segment recorded an increase in reportable segment revenue by 20.6% which was outweighed by the single digit decline of print media segment in 2013. Since the Group had made further investment in the development of a number of new Apps in 2013, the digital media segment only maintained a break-even situation in contrast to a profitable segment in 2012. The management of the Group believes that as soon as the new Apps pass their break-even scales in revenue, the digital media segment will pick up the profitable trend in 2014 and thereafter. The television segment has completed a successful transformation of business strategy and the reportable segment revenue has recorded a significant growth in 2013 by 132.8% when compared to that of 2012. The segment EBITDA had shown a healthy trend that this segment is likely to be break-even or even profitable in the near future.

Even the financial performance of the Group may not be desirable in 2013 but the Directors are satisfied with certain strategic milestones achieved by the Group.

## (A) BUSINESS REVIEW

### (i) Print Media

In 2013, the slowdown of luxury consumption in the PRC made a significant negative impact on print advertising market. The total advertising market of printed magazine category suffered a distinct decrease of 12.7% in 2013, in which all the three major categories recorded a decrease in the advertising spending: the fashion industry recorded a negative growth of 14.1%, auto industry recorded a negative growth of 12.8% and the cosmetics industry recorded a negative growth of 9.0%. The advertising markets hence experienced a lackluster performance given to the sluggishness in retail business.

*Remark: Advertising information from the above paragraph is extracted from Advertising Expenditure Report of 2013 produced by www.meihua.info.

In the beginning of 2013, the Group had two national weeklies, one national bi-weekly, two local weeklies, five monthly magazines and two bi-monthly magazines in both the PRC and Hong Kong, covering the subjects of lifestyle, news, finance, culture, art, health, etc. In June 2013, the Group launched a weekly business magazine, namely "Bloomberg Businessweek/Traditional Chinese edition" in Hong Kong.

In 2013, the Group's portfolio of printed magazine titles contributed to the revenue of approximately RMB583.1 million (2012: RMB630.9 million), which recorded a decrease of approximately 7.6% as compared to 2012.

Owing to the aforesaid situation in the advertising market, the Group's core print business managed to deliver a satisfactory performance in 2013. The revenue of our flagship magazine, "Modern Weekly" was only slightly affected by the economic slowdown in the PRC, and maintained No. 1 in the advertising revenue within category of lifestyle weekly magazines in the PRC according to an audit report by Admango Limited. It remained as the favorable choice of print media brand advertisers while most of print competitors suffered deeply in this marginal growth environment. Furthermore, we had launched "The Art Newspaper (Chinese version)", a well-framed art informative newspaper, as periodical supplement to "Modern Weekly" in the PRC and "City Magazine" in Hong Kong, which has attracted new advertising client source to our existing client portfolio, such as international art gallery, auction houses etc.

Revenue of "Modern Lady Weekly", another flagship magazine of the Group, decreased slightly when compared with 2012. It continued to maintain a very strong position in terms of circulation among all women lifestyle magazines with the No. 1 ranking since its launch in 2008 in the PRC. "Modern Lady Weekly" launched a series of interactive marketing campaigns with readers by the readers' club namely "You Jia Hui" over a number of cities in the PRC in last year. Such series of marketing events had attracted widespread attention and received positive feedbacks from both advertisers and readers.

"Bloomberg Businessweek/China" (Simplified Chinese edition) has achieved an outstanding advertising performance across all industry segments as shown by a double-digit growth in its advertising revenue as compared to 2012. By comparing with 40 other business and financial magazines it ranked No. 7 in terms of advertising revenue in all categories, versus No. 10 in year 2012. Riding on the success of the model operated in the Simplified Chinese edition in the PRC, the Group launched "Bloomberg Businessweek/Traditional Chinese edition" in Hong Kong in June 2013 to meet our target position as a regional publisher. The investment in launching "Bloomberg Businessweek/Traditional Chinese edition" had been the major cause of EBITDA decline in print media. New strategies have been developed to optimize the operation of "Bloomberg Businessweek/ Traditional Chinese edition". The publication cycle of the Traditional Chinese edition will be unified into bi-weekly as of the Simplified Chinese edition, in order to achieve greater cost and content synergy between the two titles. It is expected that through the rationale initiatives, financial performance of "Bloomberg Businessweek/Traditional Chinese edition" could have significant improvement in 2014.

Advertising revenue of other monthly magazines operated by the Group in the PRC and Hong Kong reported differing performance. Some titles, such as LOHAS, Life Magazine etc., recorded better or similar revenue as in previous year. Whilst a majority of the monthly titles experienced revenue declines as per the general trend of the Group's print media business. The Group will continue to review our monthly magazine portfolio and target to attain an optimal result in the coming future.

### (ii) Digital Media

Notwithstanding that the yearly growth rate was increased at 51.4% in the website and mobile digital application advertising market ("Overall Internet Ad Market") in 2013, we observed that this growth was mainly contributed by mainstream searching engine and niche category searching engine (i.e. Taobao, Jing Dong and Qunar). By taking out the growth of the aforementioned categories, it is estimated that there was only a double-digit growth in the mobile digital media category. Advertisers, especially luxury brand advertisers, were just starting to increase their advertising placement in high quality segmented mobile media. The Group's digital media revenue recorded a growth of 20.6% in 2013 when compared with that of 2012, which out-performed the general markets. With the Group's strategy to expand the digital media segment, the Group has made capital expenditure of RMB9.7 million to develop new Apps (such as. "iBloomberg-Traditional Chinese edition", "iLady", "iFashion" etc.) and major upgrades on existing App (i.e. "iWeekly").

*Remark: information in the above paragraph is extracted from Internet Advertising Market Report 2013 served by iResearch.

Up to the end of 2013, the number of "iWeekly" downloads on smartphones and tablets reached approximately 7.2 million and 3.1 million respectively, a significant increase by 55.3% and 32.3% from the year 2012. The advertising revenue of "iWeekly" in 2013 increased by 13.8% when compared with that of 2012. It continues to be recognised as one of the most successful Chinese media Apps on both Apple iOS and Android platforms. "iWeekly" had undergone a content revamp increasing its investment in high quality contents, including licensed contents from certain famous international media brands, such as "The New York Times" and "Agence France-Presse" etc. The revamp was well-accepted by readers and increase their adherence to iWeekly.

"iBloomberg-Simplified Chinese edition" has achieved a satisfactory result with a user base on smartphones and tablets reaching approximately 2.8 million and 1.2 million respectively since its launch at the end of 2012. Moreover, it has proven that "iBloomberg-Simplified Chinese edition" was well accepted by both readers and advertisers.

In 2013, "iBloomberg-Simplified Chinese edition", generated RMB5.2 million income in its first year of operation, a higher start than "iWeekly" in its first year.

In June 2013, the Group also launched "iBloomberg-Traditional Chinese edition" and the user base on smartphones and tablets together reached more than 160,000 for the past 6 months. It was awarded as one of the Best Apps for the year 2013 in Apple's AppStore, and the iPhone version maintained Top 2 in Newsstand Top Grossing List in AppStore.

"iLady", a comprehensive information platform for elite women, was launched in July 2013. The App has already accumulated more than 1.9 million users as at the end of 2013. Integrated with the shopping guide feature of "Linkchic.com", "iLady" had offered the unprecedented "Ready-to-Buy" digital media experience to users. Advertisers also appreciated the direct promotional solution provided by the App. Meanwhile, "Linkchic.com" has been gradually transformed into a vertical e-Commerce platform for fast fashion supported by mix-and-match themes. We believe that both "iLady" and "Linkchic.com" are important moves for the Group to ride on the recent trend of e-Commerce outbreak.

Given the expansion plan in progress, the Group's digital media business experienced a temporary loss in 2013. However, the Group management are confident that the continuous investment in developing a leading digital media platform will build our competitive edges in the future media world.

### (iii) TV media

Following the adjustments in business strategy in second half of 2012, TV media currently focuses on the customised production for its brand advertisers. TV media had already achieved a reportable segment revenue of RMB12.1 million in 2013 (2012: RMB5.2 million) which represented a significant increase of approximately 132.8% when compared with that of 2012. By comparing the loss of RMB10.2 million reported in 2012, TV media managed to reduce the loss to RMB3.0 million in 2013. Looking forward, the Group's TV media will continue the current business model and focus on customised production for brand advertisers in future. Hence, the Group believes that TV media is on the right track and will continue to deliver a satisfactory operating result in the coming years.

## (B) BUSINESS OUTLOOK

Modern Media strives to become a leading composite elite media group in the PRC with a mission to propagate global outlook for a modern China. 2014 is the year marking the beginning of our digital media business. The Group will develop a new Modern Media and enter into the digital media market through a comprehensive reform of corporate development strategies, team culture, organisational structure, management mindset and business models. The Group will establish a digital media platform covering five major categories, namely, modern lifestyle, business and finance, creative design, culture and arts and women health according to the needs, interests and consuming behaviours of different elite groups, which form a multi-media, multi-platform and multi-format integrated communication based on social media, mobile digital application, video media, print media and on-site activities and experience. It will also extend its business from information media to the lower stream of the industry chain and offer innovation models of providing products and services such as online shopping, investment and wealth management and display rooms.

## Establishment of an Elite Platform

As the PRC economy has undergone market reform for over 30 years, the consumer demands in the PRC has shifted from common demands to satisfy basic living requirements to differentiated demands, and further shifted to elite demands as a result of the improving consumption power and aesthetics. As a leading media brand targeting on specialised elite customers, Modern Media has continuously adjusted its strategies according to the market trend. The Group first introduced an integrated magazine “Modern Weekly” 15 years ago targeting on the consumer group featured with high income, high academic qualification and high consumption power. In addition to basic high-end consumptions, consumers in the PRC have more personalised and professional elite demands along with the economic growth and social development. As such, the Group has been developing new featured media products to satisfy such demands. For instance, the Group published “The Outlook Magazine” (“TOM”) for creative elites, “LOHAS” for people with LOHAS lifestyle, “Modern Lady Weekly” for urban high-end women and decision makers of family consumption, and “Bloomberg Businessweek/China” for new business leaders in emerging economies. These are the only and the first excellent elite marketing and communication platforms to provide international, modern, high class and updated social news for various groups of elite. The Group plans to classify our business into five elite media platforms, including modern lifestyle platform mainly comprised of “Modern Weekly”, “Modern Lady Weekly” and “Numeró”; business and finance platform mainly comprised of “Bloomberg Businessweek/China”; creative design platform mainly comprised of “TOM”; culture and arts platform mainly comprised of “LEAP” and “The Art Newspaper (Chinese version)”; and women health platform mainly comprised of “LOHAS”.

## Restructuring and Rebuilding of Platforms

The establishment of the above platforms will lay a foundation for future development. Along with the media technology development, the strategic focus of the Group in the next two years is to restructure and rebuild such elite platforms, which will facilitate the Group to transform from a leading traditional print media to a leading digital media. From 2014, we aim to focus on the following 10 changes: (1) from paper to mobile digitised magazines; (2) from an operation-oriented business to a user-oriented business; (3) from circulation to data flow of magazine; (4) from printing to mobile internet and big data; (5) from conventional editing to online interactive publication; (6) from one-to-one reading to personalised and mass reading; (7) from services to readers and customers to interaction among users and customers; (8) from a printed version to live-update version; (9) from top down distribution to horizontal mobile internet distribution; (10) from advertising business mode to an innovative business model of a combination of free-of-charge, advertising, value-adding and e-Commerce. The Group will be integrated, reformed and innovated in the aspects of staff, products, circulation and revenue in order. In respect of rebuilding, each elite platform will be incorporated with multi-media contents to meet all demands of our users. The existing print media, digital media, video media and social media will be integrated into corresponding elite platform according to the product characteristics. Besides, the Group will strengthen the publisher system of the platforms. The publishers shall be responsible for the overall operation of media brands, products and users of the platforms. As the product managers of the platforms, in addition to identifying users’ demands, selecting topics, perspectives of contents and visual presentation, the publishers shall be responsible to determine the forms of media to better interact with the users. Hot topic shall be designed based on its timeliness to achieve effective gradient propagation from social media to digital media and then print media, which maximise the circulation and media effects and impacts.

### Extension and Development of platform

In the new age of mobile internet, media development cannot just rely on its organic growth. Liberalisation and collaboration will become the mainstream of its development. We will seek cooperation with platforms with high circulation to enhance its capability to identify users' demands which will contribute to the establishment of an integrated community covering the selection of topics, design and perspective of reporting in accordance with users' demands, as well as the distribution methods. It can further spread its influence through sizeable platforms in addition to its own media. Meanwhile, we are establishing an open platform and plans to invite Media and We-the-Media with similar market positioning to cooperate. As a result, we are able to promptly increase the personalised contents available to its users without a significant increase in investments.

#### (1) Modern lifestyle platform

"Modern Weekly" and "iWeekly" App are our flagships of modern lifestyle platform. As brand clients increase their investments in mobile and digital media, the Group, as an industry leader, expects that "iWeekly" will continue to record rapid growth in line with the overall development of mobile and digital advertising. Moreover, the "iWeekly" may become the catalyst for innovation and business growth of "Modern Weekly" through integration and sharing of certain resources with specific topics, such as fashion, beauty and automotive. "iWeekly" will form a new technical and design team in additional to its existing customer innovation team. Through the combination of contents and technology innovation, "Modern Weekly" and "iWeekly" will jointly secure more advertising placement in addition to the recurrent advertisements.

"Modern Lady Weekly", "iLady" Apps, Linkchic.com as well as Metroer.com have jointly formed a consumption platform to serve elite women, where comprehensive solutions are provided in respect of "information, community, trial experience, shopping guide and e-commerce" for targeted customers on behalf of the brand clients. In 2014, in addition to stimulating the growth from advertising revenue, we will also put more efforts in the development of fashion-related merchants featuring clothing matching recommendations and household livings, such as household wealth management, housekeeping services and education. Our goal is to create a dimensional and functional "Online-to-Offline" ("O2O") system mainly through the platform of "Modern Lady Weekly" to satisfy the needs of elite women.

#### (2) Business and finance platform

"Bloomberg Businessweek/China", in particular the simplified Chinese edition, has maintained a strong growth momentum since its launch. Moreover, the corresponding App has been also well-received among the public and advertisers. In 2014, we plan to strengthen the simplified Chinese and digital edition of "Bloomberg Businessweek/China" and improve the its integration with traditional Chinese and digital edition to create synergies in allocation of resources, such as publishing the traditional Chinese edition bi-weekly and selecting topics from mainland China, Hong Kong and Taiwan. We aim to streamline the operating procedures and reduce costs through fully realisation of information sharing. In addition, we are in discussion with Bloomberg L.P. and aim to strengthen the cooperation for jointly development of international media products, as well as relevant conferences and campaigns, so as to facilitate the international expansion of domestic enterprises to go international as well as the localisation of international companies.

(3) **Creative design platform, culture and arts platform as well as women health platform**

The featured platforms of the Company, namely TOM, LEAP and LOHAS will focus on the application of O2O interactive model in 2014, as they are all elite media which enjoy high customer loyalty, frequent interaction and strong brand loyalty with special themes. Capitalising on these characteristics, the Group offers special commodities to the active users in the above platforms. For instance, the LOHAS has launched a household brand "LOHAS Day" which has achieved preliminary success. The business model of such platforms was diversified through on-line e-commerce as well as retail outlets. In 2014, we will continue to support the publishers of such platforms to insist the multifaceted business strategies and increase their scale and influences.

### Future Strategic Cooperation

We plan to establish a cloud storage service with huge storage size and seek high-end e-commerce platforms for strategic cooperation in accordance with the characteristics of different elite platforms, in order to form a huge cloud database. Through external huge databases, we can identify high-end elite users and provide customized magazine and brand advertisements.

The management believes that above-mentioned strategies will ensure a sustainable and healthy development of Modern Media. In the short-term, the business and operating results of the Company is expected to regain a strong growth momentum. In the medium and long term, Modern Media is expected to maintain its leading position in the mobile and digital era with its specialised positioning of elite media.

## (C) FINAL DIVIDEND

The Directors proposed to declare a final dividend of HK5.0 cents (2012: HK5.5 cents) per share, amounting to approximately HK$21.9 million, subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting. The proposed dividend will be payable to Shareholders whose names appear on the Register of Members of the Company on Tuesday, 27 May 2014 and payable on Tuesday, 17 June 2014.

## (D) BOOK CLOSURE

The annual general meeting (the "AGM") of the Company is scheduled on Tuesday, 20 May 2014. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 16 May 2014 to Tuesday, 20 May 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 15 May 2014.

The proposed final dividend is subject to the passing of an ordinary resolution by the Shareholders at the AGM. The record date for entitlement to the proposed final dividend is Tuesday, 27 May 2014. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 26 May 2014 to Tuesday, 27 May 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited for registration not later than 4:30 p.m. on Friday, 23 May 2014. The payment of final dividend will be made on Tuesday, 17 June 2014.

## LIQUIDITY AND FINANCIAL RESOURCES

### Net cash flows

During the year, the Group had a net cash inflow from operating activities of approximately RMB83.2 million (2012: RMB73.3 million), which were largely attributable to the decrease in trade receivables. The increase in operating cash inflows was mainly resulted from the speeding up the collection of trade receivables and tightening the credit control procedures. On the other hand, the Group's cash outflow from investing activities amounted to RMB83.6 million (2012: RMB60.0 million) which was mainly attributable to (a) investment in fixed assets of RMB33.1 million including the purchase of furniture, fixtures and equipment for the Digital Media operation; (b) payment of the acquisition of 100% equity interests in Linkchic; and (c) the payment of deposit for the acquisition of office premises in Hong Kong. The cash outflow of the Group from financing activities amounted to RMB10.3 million (2012: RMB18.6 million) which was mainly owing to the payment of dividend of RMB18.9 million and the net drawdown of bank loans of RMB11.1 million.

### Amounts due from Guangzhou Zhongde

Guangzhou Zhongde Consultation Company Limited ("Guangzhou Zhongde") was previously owned by Mr. Shao Zhong, an executive Director and controlling Shareholder of the Company and subsequently disposed of to an independent third party in May 2009. The amounts due from Guangzhou Zhongde were, as a result, reclassified to other receivables at 31 December 2009. As at 31 December 2012, other receivables included the amounts of RMB2.9 million due from Guangzhou Zhongde. This amount was subsequently settled in the year 2013.

### Borrowings and gearing

As at 31 December 2013, the Group's outstanding borrowings was approximately RMB56.3 million (2012: RMB45.4 million). The total borrowings comprised secured bank loans of approximately RMB17.5 million (2012: RMB21.5 million) and other unsecured bank loans of approximately RMB38.8 million (2012: RMB23.9 million). The gearing ratio as at 31 December 2013 was 9.0% (31 December 2012: 7.6%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

As at 31 December 2013, the total debts of the Group were repayable as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within 1 year or on demand | 46,791 | 34,014 |
| After 1 year but within 2 years | 2,010 | 1,870 |
| After 2 years but within 5 years | 6,971 | 6,488 |
| After 5 years | 500 | 2,992 |
| | 9,481 | 11,350 |
| | 56,272 | 45,364 |

## CAPITAL EXPENDITURE

Capital expenditure of the Group for the year include expenditure on fixed assets of approximately RMB33.1 million (2012: RMB25.4 million). Major expenditure included the purchase of building held for own use, office equipment and furniture and fixtures.

## ACQUISITIONS AND INVESTMENTS

In April 2013, the Group announced that it had entered into an agreement to acquire 100% equity interest in Linkchic and such acquisition has been completed.

In October 2013, the Group acquired 20% equity interests in Tianjin Holiday from an independent third party for a consideration of RMB8,160,000.

In December 2013, the Group entered a sale and purchase agreement with an independent third party for the purchase of office premises with a cash consideration of approximately HK$96,460,000 which is located at 7/F., Global Trade Square, No.21 Wong Chuk Hang Road, Hong Kong. The premises will be used by the Group as its head office in future.

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Save for the corporate guarantee given to banks and the Group's major printing supplier to secure the banking facilities and printing credit line disclosed below, the Group did not have any other material contingent liabilities or guarantees as at 31 December 2013.

As at 31 December 2013, the Group's bank loans of RMB11.4 million was secured by mortgages over the Group's properties in Beijing, the PRC, guarantees from Shanghai Gezhi, a subsidiary of the Group. In addition, the Group's bank loan of RMB6.1 million was secured by pledged deposits.

As at 31 December 2013, the Group's printing credit line in an amount of approximately RMB23.8 million was secured by corporate guarantee given by the Company.

## FOREIGN EXCHANGE RISKS

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant. The Group did not enter into any foreign exchange hedging instruments during the year 2013.

## EMPLOYEES AND SHARE AWARD PLAN

As at 31 December 2013, the Group had a total of 1,076 staff (2012: 1,057 staff), total staff costs (including Directors' remuneration) were approximately RMB219.0 million (2012: RMB207.9 million). The emoluments of the Directors and senior management are reviewed by the Remuneration Committee. The increase in head counts was due to the recruitment of sales and editorial staff for the launch of "Bloomberg Businessweek/Traditional Chinese edition" and the expansion of digital media division in 2013.

To recognise and reward the contribution of eligible employees for contributing to the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company approved an employee share award plan (the "Plan") on 3 December 2009 and has become effective on 7 December 2009. The Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. During the year 2013, the Company did not contribute any amount to the Plan and there were surplus funds in the Plan to acquire shares of the Company. During the year ended 31 December 2013, 3,025,000 shares of the Company were awarded and vested to selected employees under the Plan as approved by the Board of Directors of the Company.

# Corporate Governance Report

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

## CORPORATE GOVERNANCE REPORT

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year. The Group also adheres to the recommended best practices of the CG Code insofar as they are relevant and practicable.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## THE BOARD OF DIRECTORS

The Board recognises its responsibility to act in the interests of the Company and its shareholders as a whole. At 31 December 2013, the Board has ten Directors: five Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Independent Non-executive Directors represent more than one-third of the Board.

As at the latest practicable date prior to the issue of this annual report, the Directors of the Company are:

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

**Non-executive Director**
Mr. Cheng Chi Kong

**Independent non-executive Directors**
Mr. Jiang Nanchun
Mr. Wang Shi
Mr. Au-Yeung Kwong Wah
Mr. Mao Xiaofeng

The biographies of all the Directors, including their relationships, are set out on pages 53 to 54 of this Annual Report. The Board is chaired by the Chairman, Mr. Shao Zhong. Mr. Wong Shing Fat, Executive Director and Chief Executive Officer, oversees the management of the Group's business with the assistance of the Group's senior management team. Each Director brings a wide range and years of business experience to the Board. The Directors' combined knowledge, expertise and experience are extremely valuable in overseeing the Group's business. The Board sets the strategic direction and oversees the performance of the Group's business and management. The following key matters must be approved by the Board before decisions are made on behalf of the Company:

- Strategic direction
- Budgets
- Interim and annual financial results
- Interim and annual financial reports
- Significant investments
- Major acquisitions and disposals
- Major financings, borrowings and guarantees
- Material contracts
- Risk management

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

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

### Board Proceedings

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

| | **Meetings attended** | **Meetings held during 2013** |
|---|---|---|
| Mr. Shao Zhong | 5 | 6 |
| Mr. Wong Shing Fat | 6 | 6 |
| Mr. Li Jian | 5 | 6 |
| Mr. Mok Chun Ho, Neil | 5 | 6 |
| Mr. Cui Jianfeng | 6 | 6 |
| Mr. Cheng Chi Kong (appointed on 1 April 2013) | 1 | 6 |
| Mr. Wang Shi | 0 | 6 |
| Mr. Jiang Nanchun | 0 | 6 |
| Mr. Au-Yeung Kwong Wah | 5 | 6 |
| Mr. Mao Xiaofeng | 3 | 6 |

Note: On 3 December 2009, the Board resolved that, for transactions falling under Chapter 14 of the Listing Rules but with the amount involved less than HK$20 million and that all relevant percentage ratios not exceeding 5%, the same may be approved by any two Executive Directors, provided that within 5 working days from the date of signing of the agreement(s) for the transaction, a copy of such agreement(s) must be circulated to all Directors (including Independent Non-executive Directors). Out of the 6 Board meetings held, 1 falls within such category of meeting.

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

### Appointment, Re-election and Removal of Directors

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

### Induction and Continuing Development of Directors

The Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

During the year, all Directors of the Company received regular updates on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. They also attended regulatory update sessions and seminars on relevant topics. All Directors were requested to provide the Company with their respective training record pursuant to the CG Code.

### Remuneration of Directors and Senior Management

The Directors' fees and all other reimbursements and emoluments paid or payable to the Directors during the year are set out, on an individual and named basis, in note 10 to the financial statements of this Annual Report on page 104. The remuneration policy of the Group is set out on page 66 of this Annual Report.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors & Senior Management" in this Annual Report by band is set out in note 11(b) to the financial statements of this Annual Report on page 106.

### Independence of Independent Non-executive Directors

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

### Other matters relating to the Board

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

## CHAIRMAN AND CHIEF EXECUTIVE

Mr. Shao is the Chairman of the Company and is mainly responsible for providing leadership and directions to the Board. Mr. Wong Shing Fat is the Chief Executive Officer of the Group, and is responsible for overseeing the management of the Group's business with the assistance of the Group's senior management team.

## BOARD COMMITTEES

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

## AUDIT COMMITTEE

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

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

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

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

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

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

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

  (ii) Major accounting estimates and judgmental areas;

  (iii) Significant adjustments following the audit;

  (iv) The going concern assumption;

  (v) Compliance with accounting standards; and

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

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

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

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

| | **Meetings attended** | **Meetings held during 2013** |
|---|---|---|
| Mr. Au-Yeung Kwong Wah | 2 | 2 |
| Mr. Wang Shi | 2 | 2 |
| Mr. Jiang Nanchun | 0 | 2 |
| Mr. Mao Xiaofeng | 2 | 2 |

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

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

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

(c) Discuss with the external auditors regarding the nature and scope of the 2013 audit;

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

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

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

The Board has not taken any view that is different from that of the Audit Committee nor rejected any recommendation presented by the Audit Committee in 2013.

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year ended 31 December 2013.

## REMUNERATION COMMITTEE

The Company has established a remuneration committee ("Remuneration Committee") in 2009 with written terms of reference. The Remuneration Committee currently comprises three Independent non-executive Directors, namely Mr. Mao Xiaofeng (chairman of the Remuneration Committee) and Mr. Au-Yeung Kwong Wah and Mr. Jiang Nanchun and one executive Director, namely Mr. Wong Shing Fat. The primary duties of the Remuneration Committee are to make recommendations to the Board on, among other things, the Company policy and structure for the remuneration of all Directors and senior management of the Company by making reference to market rates, their duties and responsibility to determine on behalf of the Board the specific remuneration packages and conditions of employment for all the executive Directors and senior management of the Company.

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

| | Meetings attended | Meetings held during 2013 |
|---|---|---|
| Mr. Wong Shing Fat | 2 | 2 |
| Mr. Au-Yeung Kwong Wah | 2 | 2 |
| Mr. Jiang Nanchun | 0 | 2 |
| Mr. Mao Xiaofeng | 2 | 2 |

During the year ended 31 December 2013, the Remuneration Committee has performed the following works:

* reviewed and discussed the remuneration policy of the Group and the remuneration packages of Directors;

* determined the remuneration of the executive Directors and senior management of the Company;

* reviewed and approved an award of shares under the Company's Share Award Scheme, as approved by the Board. Please refer to note 28(b) to the financial statements of this Annual Report on page 126.

Details of the remuneration of each Director and the remuneration of the members of the senior management by band for the year ended 31 December 2013 are set out in notes 10 and 11 to the financial statements.

## NOMINATION COMMITTEE

The Company has established a nomination committee ("Nomination Committee") in 2012 with written terms of reference. The Nomination Committee currently comprises four Independent non-executive Directors, namely Mr. Wang Shi (chairman of the Nomination Committee), Mr. Au-Yeung Kwong Wah, Mr. Jiang Nanchun and Mr. Mao Xiaofeng. The primary duties of the Nomination Committee includes reviewing the structure, size and composition of the Board annually, making recommendation on any proposed changes to the Board and the appointment or re-appointment of directors having regard to the balance of skills and experience appropriate to the Group's business.

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

| | Meetings attended | Meetings held during 2013 |
|---|---|---|
| Mr. Wang Shi | 1 | 1 |
| Mr. Au-Yeung Kwong Wah | 1 | 1 |
| Mr. Jiang Nanchun | 0 | 1 |
| Mr. Mao Xiaofeng | 1 | 1 |

### Board Diversity Policy

On 15 August 2013, the Company adopted the Board diversity policy ("Policy") in accordance with the requirement set out in code provision of the CG Code. The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level is essential in achieving a sustainable and balanced development.

The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender. All future appointment of any member of the Board will be based on merit while taking into account diversity including gender diversity.

The Nomination Committee will review the Policy, as appropriate, to ensure the effectiveness of this Policy.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board met once to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## INTERNAL CONTROLS

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

The responsibilities for maintaining the Group's internal controls are divided between the Board and management. The Board is responsible for setting and reviewing internal control policies to monitor the Group's internal control systems. The Board delegates the implementation of these policies to management. Management is responsible for identifying and evaluating the risks faced by the Group and for designing, operating and monitoring an effective internal control system which implements the policies adopted by the Board. The Company has set up its own internal audit department to perform an internal audit function in 2010. Audit plans, risk assessments and internal audit reports are presented to and reviewed by the Audit Committee and the Board of Directors. The Board acknowledges that it is responsible for the Group's systems of internal control and for reviewing its effectiveness. Preliminary reviews of the Group's financial controls, internal control and risk management systems prior to formal reviews by the Board have been delegated to the Audit Committee in accordance with its terms of reference. The Audit Committee reviews the Group's financial controls, internal control and risk management systems at its regular Audit Committee meetings. The Company Secretary closely monitored the legislative progress on the statutory codification of certain requirements to disclose price sensitive information as formulated in the Securities and Future (Amendment) Bill 2011, to ensure application with obligations under applicable rules, regulations and laws. It should be noted, however, that while a sound and well-designed system of internal control helps to provide reasonable safeguards to assist the Group in achieving its business objectives, the system itself cannot provide protection with certainty against the Group failing to meet its business objectives or against all material errors, losses, fraud or breaches of laws or regulations. For this reason, the Board's review of the internal controls should not be treated as an absolute assurance that one of the risks mentioned above would not materialize. The Board reviewed the effectiveness of the Group's material controls, including financial, operational and compliance controls and risk management functions as well as the adequacy of resources, qualifications and experience of staff of its accounting and financial reporting function and their training programs and budget during the year and considered the Group's system of internal controls to be satisfactory.

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board of approval.

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## EXTERNAL AUDITOR

KPMG was first appointed as the auditors of the Group in 2009. During 2013, KPMG provided the following audit and non-audit services to the Group:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Audit services | 2,170 | 2,145 |
| Other non-audit services | 526 | 400 |
| Total | 2,696 | 2,545 |

A statement by KPMG about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report section of this Annual Report on page 69.

## COMPANY SECRETARY

The company secretary of the Company, Mr. Mok Chun Ho, Neil, who is also an executive Director, is responsible for supporting the Board, ensuring good information flow within the Board and Board policy and procedures are followed, advising the Board on governance matters, facilitating induction and, monitoring the training and continuous professional development of Directors. He has attained no less than 15 hours of relevant professional training during the year. His biography is set out in page 53 of this report.

## INVESTOR RELATIONS & SHAREHOLDERS' RIGHTS

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

The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. Shareholders have specific rights to convene extraordinary general meetings under the Company's Articles and Association.

## 1. Procedure for shareholders to convene an extraordinary general meeting

1.1 The following procedures for shareholders (the "Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting (the "EGM") of the Company are prepared in accordance with Article 64 of the articles of association of the Company:

(1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of the deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice (the "Requisition"), to require an EGM to be called by the Directors for the transaction of any business specified therein.

(2) Such Requisition shall be made in writing to the Board or the company secretary of the Company via email at the email address of the Company at hk@modernmedia.com.hk.

(3) The EGM shall be held within two months after the deposit of such Requisition.

(4) If the Directors fail to proceed to convene such meeting within twenty-one (21) days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed t the Requisitionist(s) by the Company.

## 2. Procedure for raising enquiries

To ensure effective communication between the Board and the Shareholders, the Company has adopted a shareholder communication policy on 29 February 2012.

2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 29801333, or go in person to its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at hk@modernmedia.com.hk, fax: (852) 28919719 or mail to Suite 1101-03, 11/F., 1063 King's Road, Quarry Bay, Hong Kong. Shareholders may call the Company at (852) 22509188 for any assistance.

### 3. Procedure and contact details for putting forward proposals at shareholders' meetings

3.1 To put forward proposals at a general meeting of the Company, a Shareholders should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information via email at the email address of the Company at hk@modernmedia.com.hk.

3.2 The identity of the Shareholder and his/her/its request will be verified with the Company's branch share register in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a Shareholder, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

3.3 The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days in writing if the Proposal requires approval by way of an ordinary resolution in an annual general meeting or a special resolution of the Company;

(2) Notice of not less than 14 clear days in writing if the Proposal requires approval in meeting other than an annual general meeting or approval by way of a special resolution of the Company;

Up to the date of this Annual Report, no shareholder has requested the Company to convene an extraordinary general meeting.

The Company's next annual general meeting will be held on 20 May 2014 at Boardroom 6, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong.

## CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association ("Articles") of the Company were amended pursuant to a special resolution passed on 28 May 2012. The latest Articles are available on the HKEx's and Company's websites.

### Conclusion

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

# *Corporate Social Responsibility Report*

Modern Media have been devoted to corporate social responsibility even facing economic difficulty during the past year. We always maintain our publications or mobile Apps content at the highest standard and care our employees, while rendering support to charities and environmental protection and contribution to the community by promoting and participating in various art activities.

## PUBLICATIONS/MOBILE APPS AWARDS

The Society of Publishers in Asia 2013 Awards for:

Award for Excellence — Feature Photography, Feature Writing and Magazine Design “Life Magazine”

Award for Excellence — Lifestyle Coverage “LOHAS”

Honourable Mention — Lifestyle Coverage “Modern Weekly”

Award for Excellence — Information Graphics “Bloomberg Businessweek/China” (Simplified Chinese edition)

Honourable Mention — Magazine Design “LEAP”

Apple App Store Award for Best of 2013 “iBloomberg (Traditional Chinese edition)”


## CARING FOR EMPLOYEES

Modern Media is people oriented and treasures our employees as the most valuable assets. We care about our employees in all aspects and highly concern about their all-rounded development. We actively create a learning attitude that our human resources department regularly organizes various training programme in different aspects according to employee’s professional needs and development stages.

We also published internal publication “Attitude” to keep employees abreast of the core value of the Group. Besides, we organized many activities for employees to enhance morale and team spirit.


Fashion Salon

Highly Effective People Workshop


Fight for 2014


Integrated Marketing Training


2013 Guangzhou Spring Dinner

2013 Shanghai Spring Dinner

Fight for 2014

## ENVIRONMENTAL PROTECTION

Modern Media is concerned about environmental protection so we try to turn our traditional print magazine business to an environmental friendly business. "LOHAS", our monthly magazine in our woman health platform, started using the followings material from January 2014 to support its slogan "Green Life, New Vision":


Paper certified by Forest Stewardship Council ("FSC") — FSC is a non-profit and independent non-governmental organization and its objectives include formulating widely recognized principles and standards of forest operation to promote economically feasible forest operation approaches which are beneficial to both environment and society.

Soybean oil ink for printing — Soybean oil is one of edible oils and can be fully integrated into the natural environment after decomposition. As soybean is not carcinogenic and damaging to environment, it is an environmental-friendly ink in daily life.

Degradable plastic bag for packing.— Degradable plastic bag is an environmental-friendly plastic bag as it will be automatically degraded after 90 days under certain conditions.

Furthermore, we actively promote green message in all our magazines and mobile Apps, by using our media power, we hope we can contribute to sustainability.

## COMMITMENT TO CHARITIES

Modern Media lends full support to charitable activities for the community, especially projects on Mainland education, as this will change our future generation. Since 2011, we have donated to different Mainland education projects through The China Candlelight Educational Fund, including building of school premises. In 2012, Songzi Modern Information Special Educational School is completed and in Oct 2013, Modern Information Scientific Building of Luoding Central Primary School is completed. At the same time, we also actively support and participate in other charity activities and projects through donations and volunteer services.


## PROMOTING AND SUPPORTING ART

Modern Media actively support global art development and promotion, we hope art appreciation and general aesthetic learning can be accessible to more people. Modern Media has been devoted to promoting ART HK, the predecessor of Hong Kong Art Basel. Since the presences of Art Basel in Hong Kong in 2013, Modern Media has been the media partner of Hong Kong Art Basel since the first fair. Modern Media assisted to organize the party following the opening ceremony and promoted this well-known art fair through its media platforms. Mr. Shao Zhong, the chairman of the Group, is a member of the Selection Committee of Hong Kong Art Basel.

Mr. Cheng Chi Kong, Mr. Magnus Renfrew, Asia Pacific President of Art Basel and Mr. Shao Zhong

Ms. Cao Dan, publisher of "LEAP", Ms. Anna Somers Cocks, Founder & President of "The Art Newspaper" and Mr. Shao Zhong

Mr. Andrew Strachan, Hong Kong Art Basel General Manager & Mr. Shao Zhong

In addition to Hong Kong Art Basel, Modern Media sponsored various art events and exhibitions in 2013, and actively promoted art development and cultural exchange by acting as the chief strategic media partner of numerous art events. For example, Modern Media was the chief strategic media partner and sponsor of the opening exhibition and galleries of "Portrait of the Times, 30 Years of Chinese Contemporary Art" organized by the Museum of Contemporary Art, Shanghai.

In addition, we published "LEAP" and "The Art Newspaper (Chinese version)", which is attached to our flagship magazine "Modern Weekly", in order to promote art appreciation to general public and bring art back within the daily reach of ordinary people.

# Biographical Details of Directors & Senior Management

## DIRECTORS

**Mr. SHAO Zhong (邵忠)**, aged 53, the founder of our Group. Mr. Shao was initially appointed as a Director in March 2007, and was subsequently designated as chairman of the Board and executive Director in July 2009. Mr. Shao is responsible for the overall corporate strategies, policy-formulating and instilling corporate philosophy of our Group. Prior to founding our Group, Mr. Shao was formerly a PRC government official before 1989. Then, he also undertook senior positions in other publishing and media enterprises including a listed printing company in Hong Kong until 1999. Mr. Shao holds an EMBA degree from Tsinghua University of Beijing. His in-depth experience in the media and publication industries in the PRC earned him the nomination as one of Top 10 Media Leading Icon at China Media Forum in 2010.

**Mr. WONG Shing Fat (黃承發)**, aged 55, the chief executive officer of our Group responsible for the corporate and business planning and development a well as the overall management and operation of our Group. Mr. Wong was appointed as the executive Director of our Group in July 2009. He joined our Group in January 2003 as a chief consultant and also assumed the role as the chief operation officer and was subsequently promoted as the chief executive officer of our Group in September 2006. Prior to joining our Group, Mr. Wong undertook senior positions in several international reputable advertising companies and was responsible for the media planning, overall operational management and business development in the greater China region. Mr. Wong has over 29 years of experience in media operation and management of the advertising and media industries. Mr. Wong was granted the "SALUTE" Media Award by the Association of Accredited Advertising Agencies of Hong Kong in 1996 in recognition of his professional and significant contribution to the advertising industry in Hong Kong.

**Mr. LI Jian (厲劍)**, aged 45, the chief operation officer of our Group responsible for the formulation and execution of the advertising sales strategies as well as the publication management of our Group. Mr. Li was appointed as an executive Director of our Group in July 2009. He joined our Group in May 1999 and took up various senior positions in Shanghai and Beijing offices and he was subsequently promoted to be the chief operation officer of our Group in July 2006. Mr. Li obtained his MBA degree from Murdoch University in Australia in March 2000 and his bachelor's degree in Applied Mathematics from the Faculty of Applied Mathematics of Lanzhou University in China in June 1992. He has over 14 years of experience in the marketing industry.

**Mr. MOK Chun Ho, Neil (莫峻皓)**, aged 48, the chief financial officer of our Group responsible for the general financial planning and management of our Group. Mr. Mok joined our Group in March 2003 and was appointed as an executive Director of our Group in July 2009. He obtained his MBA degree from Charles Sturt University in Australia in November 2002 and the Diploma in Accountancy from the Lingnan College of Hong Kong (currently known as Lingnan University) in November 1989. Mr. Mok was admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants and the associate member of the Taxation Institute of Hong Kong and The Hong Kong Institute of Chartered Secretaries in February 2010, April 1999 and May 2011, respectively. Mr. Mok has over 21 years of experience in finance and accounting management through his previous financial positions with several listed and private companies in Hong Kong.

**Mr. CUI Jianfeng (崔劍鋒)**, aged 41, was appointed as the chief investment officer and executive Director of our Group in July 2009. Mr. Cui was also promoted as the chief executive officer of digital media division of our Group in April 2013. Mr. Cui joined our Group in May 2008 and is responsible for the investment strategies and business management of our Group. Prior to joining our Group, he took up various senior positions in two reputable multinational companies. Mr. Cui's past working experience in multinational companies helps our Group in developing constructive investment and business finance systems. He obtained an MBA degree from the Deakin University in Australia in September 2003 and another MBA degree from the University of Western Ontario in Canada in October 2004 respectively and also the bachelor's degree of commerce (major in accountancy) from the University of Wollongong in Australia in October 1995. Mr. Cui is a member of CPA Australia. Mr. Cui has over 14 years of experience in finance and business management.

# Biographical Details of Directors & Senior Management *(continued)*

## NON-EXECUTIVE DIRECTOR

**Mr. CHENG Chi Kong (鄭志剛)**, aged 34, was appointed as the non-executive Director in April 2013. Mr. Cheng obtained a Bachelor of Arts degree (cum laude) from Harvard University. He worked in a major international bank and has substantial experience in corporate finance. Mr. Cheng serves as executive director of a number of companies which are listed on the Main Board of the Stock Exchange, including New World Development Company Limited, New World China Land Limited, New World Department Store China Limited, Chow Tai Fook Jewellery Group Limited etc.

Mr. Cheng is also the vice-chairman of the All-China Youth Federation, the vice chairman of the Youth Federation of the Central State-owned Enterprises, a member of the Tianjin Municipal Committee of The Chinese People's Political Consultative Conference, a consultant of the Beijing Municipal Committee of The Chinese People's Political Consultative Conference, chairman of China Young Leaders Foundation, chairman of New World Group Charity Foundation and the honorary chairman of Fundraising Committee of the Wu Zhi Qiao (Bridge to China) Charitable Foundation.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. WANG Shi (王石)**, aged 62, was appointed as the independent non-executive Director in August 2009. Mr. Wang has almost 20 years of experience in real estate development in the PRC. Mr. Wang was the founder of China Vanke Co., Ltd. which was listed on the Shenzhen Stock Exchange starting from 1984. He acted as its general manager from 1988 to 1999, and he also acted as its chairman from1988 till now. Mr. Wang obtained his bachelor's degree in water supply studies from Lanzhou Jiaotong University in China in September 1977.

**Mr. JIANG Nanchun (江南春)**, aged 40, was appointed as the independent non-executive Director on in August 2009. Mr. Jiang has over 16 years of experience in the media and advertising industries in the PRC. He held the office of chief executive officer of Everease Advertising Corporation, which is one of the top 50 advertising agencies in China, from 1994 to 2003. In May 2003, Mr. Jiang became the general manager of Focus Media Advertisement. He also founded Focus Media Holding Limited ("Focus Media") (a company which is listed on the National Association of Securities Dealers Automated Quotations (NASDAQ)) and served as its chairman of the board of directors and the chief executive officer since May 2003. Mr. Jiang obtained his bachelor's degree in Chinese language and literature from East China Normal University in China in 1995.

**Mr. AU-YEUNG Kwong Wah (歐陽廣華)**, aged 49, was appointed as the independent non-executive Director in August 2009. Mr. Au-Yeung obtained a bachelor's degree in commerce from The Bond University in Australia in September 1996, a master's degree in accountancy from The Chinese University of Hong Kong in December 2000, a postgraduate diploma in corporate administration from The Hong Kong Polytechnic University in December 2005 and an EMBA degree from The Chinese University of Hong Kong in December 2008. Mr. Au-Yeung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He has over 12 years of experience in auditing and financial control through his prior employments with accounting firms and listed companies in Hong Kong. Mr. Au-Yeung was an executive director of C&O Pharmaceutical Technology Holdings Limited, the shares of which are listed on the main board of the Singapore Stock Exchange, from August 2005 to March 2006, after which he was re-designated as an independent non-executive director of this company from April 2006 to January 2007.

**Mr. MAO Xiaofeng (毛曉峰)**, aged 41, was appointed as the independent non-executive Director in February 2012. Mr. Mao obtained a master's degree in industrial and foreign trade from Hunan University in 1995, a doctorate degree in management from Hunan University, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University in the United States of America in 2000. Currently, he is a vice president of China Minsheng Banking Corp., Ltd. ("Minsheng Bank"), the shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange. Mr. Mao has also been the secretary to the board of directors of Minsheng Bank and one of the joint company secretaries of Minsheng Bank since June 2003 and March 2004 respectively.

## SENIOR MANAGEMENT

**Mr. Alain DEROCHE**, aged 52, the vice president and the publishing controller of two Group's international titles, namely "Numero" and "Intersection". Mr. Deroche joined our Group in June 2008 and is responsible for the management of our Group's international copyright business and the planning and content innovation for the Magazines. Prior to joining our Group, Mr. Deroche served as the general manager in charge of publishing in Asia for two and a half years and the publishing controller for ELLE's international edition in the International Department of a French company called Hachette Filipacchi Medias Group for five years. Mr. Deroche obtained his doctoral degree in international enterprise management from Universite Paris-Dauphine (English translation: Paris Dauphine University) in France in October 1986. He has over 29 years of experience in international media management of the international media industry.

**Ms. Amy YOUNG Ying (楊瑩)**, aged 39, was graduated in Shanghai Foreign Trade College, majored in Foreign Trade Economy and obtained her executive master of business administration degree from a course joinly provided by Shanghai Jiao Tong University and Euromed Management Marseille in Shanghai in November 2013. Ms. Young has more than 16 years' working experience in the Advertising, Marketing and Public Relationship. Ms. Young worked for Swatch Group and The Wharf Holdings Limited after graduation. In 2000, Ms. Young joined the Group as Marketing Director of its Shanghai Office and further on promoted as the Deputy General Manager. To broaden her publishing experience, Ms. Young joined Vogue Magazine, China as Associate Publisher and Advertising Director from May 2005 to July 2009. In August, 2009, Ms. Young rejoined the Group as Shanghai Office General Manager to manage the sales and marketing and assisting the business development of the Group.

**Ms. ZHONG Yuanhong (鍾遠紅)**, aged 42, the administration and production controller of our Group. Ms. Zhong, being one of the most senior employees of our Group, joined our Group in April 1998 and is responsible for the procurement, production and administrative management of our Group. Prior to joining our Group, she was an assistant to director in Ramada Pearl Hotel in Guangzhou for 3 years. Ms. Zhong completed her secondary education in Guangzhou No. 62 middle school in June 1989. She has over 18 years of experience in administrative management, with a particular expertise in printing and the post production management of publications, in the media industry.

**Mr. CHING Siu Wai (程少偉)**, aged 48, joined our Group in July 2003 as the creative director of City Magazine and is now the deputy general manager in Hong Kong, creative director of our Group and also the publishing director of City Magazine in Hong Kong. Mr. Ching is responsible for the management of the creative design business of our Group and the operation and management of City Magazine. Mr. Ching obtained a diploma in design from HK Chingying Institute of Visual Arts. He has over 22 years of solid experience in magazine design and the media industry. Mr. Ching was granted the Best Magazine Design Award by the Society of Publishers in Asia in 2005 and 2007 respectively.

**Mr. LIM Timothy Edward (林添靈)**, aged 39, joined our Group in February 2006 and is the fashion director of our Group responsible for the planning and development of the fashion aspects of the Magazines. Prior to joining our Group, Mr. Lim was the fashion editor of The South China Morning Post in Hong Kong for 6 years. Further, Mr. Lim has contributed to a number of famous international fashion magazines including Elle, Marie Claire, Tank and Bazaar in the past. Mr. Lim obtained his bachelor's degree from McGill University in Canada in 1997. He has over 16 years of experience in international fashion news reporting and styling for advertising and professional fashion media.

**Ms. HUANG Wenhua (黃文樺)**, aged 43, joined our Group in June 2002 and is the regional general manager of Guangzhou, responsible for the operation and management of the advertising business in Southern China. Prior to joining our Group, Ms. Huang was the head of the customer relations department in Central Hotel in Guangzhou for 2 years. She completed her secondary education in Guangzhou. Ms. Huang has over 14 years of experience in the media industry.

**Ms. YEH Shaway (葉曉薇)**, aged 45, joined our Group in May 2006 and is now the Style Editorial Director of the Group, responsible for the provision of style editorial direction to several publications and mobile Apps of the Group. Under Ms. Yeh's editorial direction, Modern Weekly reaches China's elite readers with the latest international news, trends, phenomena and discussion in the fields of Style and Culture. Ms. Yeh obtained her master degree on performing arts from New York University in U.S. in 1994. Before moving to China, she worked for aRUDE magazine in New York (1994) and GQ Taiwan (1996). Ms. Yeh moved to Shanghai in 2003 for the preparation of Vogue China launch. Before joining our Group, Ms. Yeh helmed communication in China for Prada in 2005. She spoke on forums at China Fashion Designers Association, The Wolpole British Luxury, Hong Kong Art Fair and served as Jury for Swiss Textile Fashion Award, Rado Young Design Prize, Asian WSJ Innovation award etc.

# Directors' Report

The Directors are pleased to submit their report together with the audited financial statements of Modern Media Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The particulars and activities of the Company's subsidiaries are set out in note 38 to the consolidated financial statements. An analysis of the Group's performance for the year by business segments is set out in note 12 to the consolidated financial statements.

## FINANCIAL RESULTS AND DISTRIBUTABLE RESERVES

The profit of the Group for the year and the state of affairs of the Company and the Group as at 31 December 2013 are set out in the consolidated financial statements on pages 70 to 72.

Movements in the reserves of the Company and amounts available for distribution to shareholders are disclosed in note 29 to the financial statements. Movements in the reserves of the Group are disclosed in the consolidated statement of changes in equity on page 74.

## DIVIDEND

The Directors have declared a final dividend of HK5.0 cents (2012: HK5.5 cents) per share amounting to approximately HK$21.9 million, which represents approximately 52.2% of the net profit of 2013, payable to shareholders whose names appear on the Register of Members of the Company on 6 June 2014 and payable on 27 June 2014.

## SHARE CAPITAL

Details of the movements in the authorized and issued share capital of the Company are set out in note 28 to the financial statements.

## FIXED ASSETS

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

## MAJOR SUPPLIERS AND CUSTOMERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 61.3% and 39.4% of the Group's total purchases for the year ended 31 December 2013 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 32.5% and 12.5% of the Group's total sales for the year ended 31 December 2013 respectively.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2013 had any interest in any of the five largest suppliers and customers disclosed above.

## FIVE YEAR SUMMARY

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 146.

## PRE-EMPTIVE RIGHTS

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

## DIRECTORS

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

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

**Non-executive Director**
Mr. Cheng Chi Kong (Appointed on 1 April 2013)

**Independent non-executive Directors**
Mr. Wang Shi
Mr. Jiang Nanchun
Mr. Au-Yeung Kwong Wah
Mr. Mao Xiaofeng

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the Directors and chief executive of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as otherwise notified to the Company:

**Long Positions in the Company**

| Name of Director | Company/Name of Group member | Capacity/Nature of interest | Number of ordinary shares of the Company held | Approximate % of issued share capital |
|---|---|---|---|---|
| Shao Zhong ("Mr. Shao") | The Company | Beneficial owner | 269,194,000 | 61.48% |
| Wong Shing Fat | The Company | Beneficial owner | 2,452,000 | 0.56% |
| Li Jian | The Company | Beneficial owner | 3,336,000 | 0.76% |
| Mok Chun Ho, Neil | The Company | Beneficial owner | 2,164,000 | 0.49% |
| Cui Jianfeng | The Company | Beneficial owner | 2,312,000 | 0.53% |

**Long Positions in the associated corporations of the Company**

| Name of Director | Name of associated corporation | Capacity | Approximate % of equity interest |
|---|---|---|---|
| Mr. Shao | 北京現代雅格廣告有限公司 (Beijing Modern Yage Advertising Co., Ltd.*, "Beijing Yage") | Interest of controlled corporations *(Note 2)* | 100% |
| Mr. Shao | 北京雅格致美廣告傳播有限公司 (Beijing Yage Zhimei Advertising Media Co., Ltd.*, "Beijing Yage Zhimei") | Interest of controlled corporations *(Note 3)* | 100% |
| Mr. Shao | 廣州現代資訊傳播有限公司 (Guangzhou Modern Information Media Co., Ltd.*, "Guangzhou Modern Information") | Beneficial owner | 100% |
| Mr. Shao | 廣州現代圖書有限公司 (Guangzhou Modern Books Co., Ltd.*, "Guangzhou Modern Books") | Beneficial owner | 90% |
| Mr. Shao | Guangzhou Modern Books | Interest of controlled corporations *(Note 4)* | 10% |
| Mr. Shao | 廣州雅格廣告有限公司** (Guangzhou Yage Advertising Co., Ltd.*, "Guangzhou Yage") | Interest of controlled corporations *(Note 5)* | 100% |
| Mr. Shao | 上海格致廣告有限公司 (Shanghai Gezhi Advertising Co., Ltd.*, "Shanghai Gezhi") | Interest of controlled corporations *(Note 6)* | 100% |
| Mr. Shao | 上海雅格廣告有限公司 (Shanghai Yage Advertising Co., Ltd.*, "Shanghai Yage") | Interest of controlled corporations *(Note 7)* | 100% |
| Mr. Shao | 深圳雅格致美資訊傳播有限公司 (Shenzhen Yage Zhimei Information Media Co., Ltd.*, "Shenzhen Yage Zhimei") | Interest of controlled corporations *(Note 8)* | 100% |
| Mr. Shao | 珠海現代致美文化傳播有限公司 (Zhuhai Modern Zhimei Culture Media Co., Ltd.*, "Zhuhai Modern Zhimei") | Interest of controlled corporations *(Note 9)* | 100% |
| Mr. Shao | 珠海銀弧廣告有限公司 (Zhuhai Yinhu Advertising Co., Ltd.*, "Zhuhai Yinhu") | Beneficial owner | 90% |
| Mr. Shao | Zhuhai Yinhu | Interest of controlled corporations *(Note 10)* | 10% |
| Mr. Shao | 廣州摩登視頻傳媒有限公司 (Guangzhou Modern Video Media Co., Ltd.*, "Guangzhou Modern Video") | Interest of controlled corporations *(Note 11)* | 100% |
| Mr. Shao | 廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited.*, "Guangzhou Mobile Digital") | Interest of controlled corporations *(Note 12)* | 100% |
| Mr. Shao | 上海森音信息技術廣告有限公司 (Shanghai Senyin Information Technology Co., Ltd.*, "Shanghai Senyin") | Beneficial owner *(Note 13)* | 100% |
| Mr. Shao | 每城美客（北京）網絡科技有限公司 (Linkchic (Beijing) Network Technology Co. Ltd.*, "Linkchic Beijing") | Interest of controlled corporations *(Note 14)* | 100% |
| Mr. Shao | 北京格意致移動科技有限公司 (Beijing Geyizhi Mobile Technology Co. Ltd.*, "Beijing Geyizhi") | Interest of controlled corporations *(Note 15)* | 100% |

* denotes English translation of the name of a Chinese company or entity is provided for identification purposes only

** company deregistered before 31 December 2013

Notes:

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

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

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

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

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

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

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

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

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

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

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

12. Guangzhou Mobile Digital is held as to 95% by Mr. Shao and as to 5% by Shanghai Senyin. Mr. Shao is accordingly deemed by the SFO to be interested in the 5% equity interest in Guangzhou Mobile Digital held by Shanghai Senyin which is Mr. Shao's controlled corporation.

13. Shanghai Senyin is held as to 95% by Mr. Shao and 5% by Ms. Zhong Yuanhong, an employee of the Group, on trust for Mr. Shao.

14. Linkchic Beijing is held as to 100% by Guangzhou Mobile Digital, the equity interest of which is held as to 95% by Mr. Shao and as to 5% by Shanghai Senyin. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Linkchic Beijing held by Shanghai Senyin, which is Mr. Shao's controlled corporation.

15. Beijing Geyizhi is held as to 100% by Guangzhou Mobile Digital, the equity interest of which is held as to 95% by Mr. Shao and as to 5% by Shanghai Senyin. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Beijing Geyizhi held by Shanghai Senyin, which is Mr. Shao's controlled corporation.

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

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31 December 2013, the Company had been notified of the following shareholder other than Directors having interests in shares representing 5% or more of the Company's issued share capital:

| Name of Shareholder | Capacity | Number of ordinary shares held | Percentage of issued ordinary shares as at 31 December 2013 |
|---|---|---|---|
| Madam Zhou Shao-min *(Note 1)* | Interest of spouse | 269,194,000 | 61.48% |
| FIL Limited | Beneficial owner | 35,072,000 | 8.01% |
| Cheah Capital Management Ltd. *(Note 2)* | Interest of corporation controlled by the substantial shareholder | 25,480,000 *(Note 3)* | 5.81% |
| Cheah Cheng Hye | Founder of a discretionary trust | 25,480,000 *(Note 3)* | 5.81% |
| Cheah Company Ltd. *(Note 4)* | Interest of corporation controlled by the substantial shareholder | 25,480,000 *(Note 3)* | 5.81% |
| Hang Seng Bank Trustee International Ltd. | Trustee (other than a bare trustee) | 25,480,000 *(Note 3)* | 5.81% |
| To Hau Yin *(Note 4)* | Interest of the substantial shareholder's child under 18 or above | 25,480,000 *(Note 3)* | 5.81% |
| Value Partners Group Limited *(Note 2)* | Interest of corporation controlled by the substantial shareholder | 25,672,000 *(Note 5)* | 5.86% |
| Value Partners Hong Kong Limited *(Note 2)* | Interest of corporation controlled by the substantial shareholder | 25,672,000 *(Note 5)* | 5.86% |
| Value Partners Limited | Investment manager | 25,480,000 *(Note 3)* | 5.81% |
| Harmony Master Fund *(Note 6)* | Beneficial owner | 22,244,000 | 5.08% |
| United Achievement Limited *(Note 7)* | Beneficial owner | 25,020,000 | 5.71% |
| Warburg Pincus & Co. *(Note 7)* | Interest of corporation controlled by the substantial shareholder | 25,020,000 | 5.71% |
| Warburg Pincus Partners LLC *(Note 7)* | Interest of corporation controlled by the substantial shareholder | 25,020,000 | 5.71% |
| Warburg Pincus Private Equity X, L.P. *(Note 7)* | Interest of corporation controlled by the substantial shareholder | 25,020,000 | 5.71% |
| Warburg Pincus X, L.P. *(Note 7)* | Interest of corporation controlled by the substantial shareholder | 25,020,000 | 5.71% |
| Warburg Pincus X, LLC *(Note 7)* | Interest of corporation controlled by the substantial shareholder | 25,020,000 | 5.71% |

*Notes:

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

2. According to the corporate substantial shareholder notice of Value Partners Limited filed on 23 May 2011, Cheah Cheng Hye, Value Partners Group Limited, Cheah Capital Management Limited and Cheah Company Limited are Value Partners Limited's director, immediate holding company, intermediate holding company and intermediate holding company. According to the DI Notice filed by Value Partners Group Limited on 8 December 2011, Value Partners Limited is wholly owned by Value Partners Hong Kong Limited, which is ultimately wholly owned by Value Partners Group Limited. For the purpose of SFO, each of Value Partners Group Limited, Value Partners Hong Kong Limited is deemed to be interested in the Shares beneficially owned by Value Partners Limited.

3. The figures shown in the above table are based on confirmation recently received from Cheah Capital Management Limited; Cheah Cheng Hye; Cheah Company Limited; Hang Seng Bank Trustee International Limited; To Hau Yin; and Value Partners Limited respectively (and according to the relevant DI Notices in connection with the Company available on www.hkex.com.hk as at 31 December 2013, the number of Shares as reported in such notice to be held by each of the relevant shareholder was 25,480,000.

4. The relationship between To Hau Yin and Cheah Cheng Hye is parent and child under 18 years of age.

5. The figures shown in the above table are based on confirmation recently received from Value Partners Group Limited and Value Partners Hong Kong Limited (and according to the relevant DI Notices in connection with the Company available on www.hkex.com.hk as at 31 December 2013, the number of Shares as reported in such notice to be held by each of the relevant shareholders was 25,672,000.

6. Harmony Master Fund ("Harmony Fund") is a long-only equity fund registered in the Cayman Islands. Harmony Fund is managed by DM Fund Management Limited, a company registered in the Cayman Islands and a subsidiary of DM Capital Limited, a company incorporated in British Virgin Islands. Harmony Fund primarily holds long equity positions in small capitalization stocks that derive a majority of their revenues within the Greater China region. The fund adopts a fundamentals-driven bottom-up approach to stock selection focusing on high growth, high quality and under-reported investment opportunities that are attractively valued. Upon building an investment position, the fund will exercise a "Friendly Activist" approach seeking to constructively engage portfolio companies and add value through guiding improvement in fundamental characteristics such as corporate governance and company strategy. The figure shown in the above table is based on confirmation recently received from Harmony Fund (and according to the relevant DI Notice in connection with the Company available on www.hkex.com.hk as at 31 December 2013, the number of Shares as reported in such notice to be held by the relevant shareholder was 25,020,000.

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

## SHARE AWARD SCHEME

Details of the Share Award Scheme adopted by the Company and the Awards made up to 31 December 2013 are set out in note 28(b) to the financial statements of this Annual Report on page 126.

## SHARE OPTION SCHEME

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

No share option was granted, exercised, cancelled or had lapsed under the Scheme during the year. No share option was outstanding under the Scheme as at 31 December 2013.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

None of the Directors (including their spouses and children below 18 years of age) had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company during the year ended 31 December 2013.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

***Investment in online search services held by Mr. Shao Zhong***

As at 31 December 2013, Mr. Shao Zhong ("Mr. Shao"), an executive Director and the controlling Shareholder, held about 10% equity interest in a company ("Online Search Company") incorporated in Beijing, the PRC. The Online Search Company has been principally engaged in the business of operating an internet platform of open community in the form of a network of community members asking and answering questions with high-quality contents generated by users and shared across multiple knowledge domains. He is not in control of such company. Mr. Shao made investments in the said business before the Group's commencement of the Mobile Digital Media Business.

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

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

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

## DIRECTORS' SERVICE CONTRACTS

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

## CONNECTED TRANSACTIONS

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

(a) management and consultation services agreements dated 24 August 2009 and entered into between Zhuhai Technology and (i) Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei (collectively the "Publishing and Investment Holding Entities"); (ii) Shanghai Gezhi, Beijing Yage Zhimei, Shenzhen Yage Zhimei and Guangzhou Yage (collectively the "Sales Entities"); (iii) Shanghai Yage and Beijing Yage (collectively the "Production Entities"), pursuant to which the PRC Operational Entities have engaged Zhuhai Technology on an exclusive basis to provide consultation services in the management, sales and marketing, enterprise management and other supporting services in connection with the PRC Operational Entities' business. In return, each of the PRC Operational Entities agrees to pay to Zhuhai Technology fees on an annual basis in arrears. Fees payable to Zhuhai Technology by the PRC Operational Entities are equivalent to the total revenue less all the related costs, expenses and taxes of the respective PRC Operational Entities, as audited by such certified public accountants of the PRC. Such management and consultation services agreements became effective when it was executed on 24 August 2010 and would remain effective for a perpetual term;

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

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

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

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

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

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

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out from the date when the Contractual Arrangements became effective up to 31 December 2013 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operational Entities has been substantially retained by Zhuhai Technology; (ii) no dividends or other distributions have been made by the PRC Operational Entities to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; (iii) the terms of the transactions are on normal commercial terms and in the ordinary and usual course of business and (iv) any new contracts entered into, renewed or reproduced between the Group and the PRC Operational Entities during the relevant financial period are fair and reasonable, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

#### ***Contractual Arrangements in relation to GZ Mobile Digital and SH Senyin***

The following connected transaction ("2011 Arrangements") was entered into by the Group in September 2011.

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

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

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

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

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

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

During the year, the Group has entered into certain related party transactions as disclosed in Note 32 to the consolidated financial statements. Such transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

* denotes English translation of the name of a Chinese company or entity is provided for identification purposes only

## CONTINUING CONNECTED TRANSACTIONS

The Company disclosed in its prospectus dated 28 August 2009 and announcement dated 21 September 2011 which the Group entered into and will continued to be carried out between members of the Group certain continuing connected transactions in respect of the Contractual Arrangements. (The "Continuing Connected Transactions").

Pursuant to Chapter 14A of the Listing Rules, transactions carried out under the contractual arrangements and 2011 Contractual Agreements have complied with the reporting and announcement requirements during the year. The Continuing Connected Transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that the Continuing Connected Transactions have been entered into in accordance with the relevant Contractual Arrangements and that no dividend or other distribution has been made by the PRC Operational Entities to the holders of their respective equity interests which are not otherwise subsequently assigned/transferred to our Group.

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

The auditor has confirmed that:

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

b. for transactions involving the provision of goods or services by the Group to the PRC Operational Entities (as defined in the Prospectus of the Company dated 28 August 2009 (the "Prospectus")) and the Target Companies (as defined in the announcement of the Company dated 21 September 2011 (the "2011 Announcement")), nothing has come to our attention that causes us to believe that the transactions were not, in all material respects, in accordance with the relevant terms of Contractual Agreements as set out in the Prospectus and the 2011 Announcement.

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

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2013, the Group had around 1,076 employees (2012: 1,057). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employee benefits include provident fund, insurance and medical cover and the share award plan adopted by the Company which became effective on 7 December 2009.

The Directors' and Chairman's emoluments are determined by the Remuneration Committee, with reference to their duties, responsibilities and performance and the results of the Group and comparable market statistics, including the prevailing market rate for executives of similar position. Details of the Directors' remuneration and individuals with the highest emoluments in the Group are set out in notes 10 and 11 of the financial statements.

## PENSION SCHEME

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

There was no forfeited contribution under the scheme available for deduction of future contribution to be made by the Group. The Group's contributions to retirement benefit schemes were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 were RMB34.3 million. Details of the contribution retirement schemes are set out in note 6 of the financial statements.

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

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

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

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Details of the Company's corporate governance practices are set out in the "Corporate Governance" section of this Annual Report on pages 38 to 49.

## AUDIT COMMITTEE

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

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

# Directors' Report *(continued)*

## TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the shares of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained throughout the year ended 31 December 2013, the amount of public float as required under the Listing Rules.

## CONFIRMATION OF INDEPENDENCE

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

## AUDITORS

The financial statements for the year ended 31 December 2013 of the Company have been audited by KPMG, who will retire at the forthcoming annual general meeting on 20 May 2014.

On behalf of the Board
**Shao Zhong**
*Chairman*

Hong Kong, 18 March 2014

# *Independent Auditor's Report*

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

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Media Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 70 to 145, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

18 March 2014

# *Consolidated Statement of Profit or Loss and Other Comprehensive Income*

for the year ended 31 December 2013

| 2013 HK$'000 | | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| 797,875 | Turnover | 4 | 631,180 | 655,313 |
| (352,752) | Cost of sales | | (279,054) | (278,457) |
| 445,123 | Gross profit | | 352,126 | 376,856 |
| 5,135 | Other revenue | 5(a) | 4,062 | 12,762 |
| 446 | Other net income/(loss) | 5(b) | 353 | (366) |
| (197,527) | Selling and distribution expenses | | (156,259) | (148,437) |
| (185,589) | Administrative and other operating expenses | | (146,815) | (145,116) |
| 67,588 | Profit from operations | | 53,467 | 95,699 |
| (3,105) | Finance costs | 6(a) | (2,456) | (2,848) |
| 60 | Share of profit of associates | 18 | 48 | 267 |
| 472 | Share of profit/(loss) of a joint venture | 19 | 373 | (366) |
| 65,015 | Profit before taxation | 6 | 51,432 | 92,752 |
| (23,063) | Income tax | 7(a) | (18,245) | (27,484) |
| 41,952 | Profit for the year | | 33,187 | 65,268 |
| | Other comprehensive income for the year | | | |
| | Items that may be reclassified subsequently to profit or loss: | | | |
| | Exchange differences on translation of financial statements of: | | | |
| (2,902) | — overseas subsidiaries | 8 | (2,296) | 2,013 |
| (304) | — an overseas associate | 8 | (240) | (50) |
| 38,746 | Total comprehensive income for the year | | 30,651 | 67,231 |
| 41,952 | Profit attributable to equity shareholders | | 33,187 | 65,268 |
| 38,746 | Total comprehensive income attributable to equity shareholders | | 30,651 | 67,231 |
| | Earnings per share (RMB) | 9 | | |
| HK$0.0965 | — Basic | | RMB0.0763 | RMB0.1509 |
| HK$0.0963 | — Diluted | | RMB0.0762 | RMB0.1509 |

The notes on pages 77 to 145 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 29(b).

# *Consolidated Statement of Financial Position*

at 31 December 2013

| 2013 HK$'000 | | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| | **Non-current assets** | | | |
| 158,667 | Fixed assets | 13 | 125,518 | 113,131 |
| 30,761 | Intangible assets | 14 | 24,334 | 15,749 |
| 37,964 | Goodwill | 15 | 30,032 | 28,203 |
| 3,258 | Software development in progress | 16 | 2,577 | 7,446 |
| 9,502 | Interests in associates | 18 | 7,517 | 7,709 |
| 2,054 | Interest in a joint venture | 19 | 1,625 | 1,252 |
| 10,315 | Investments | 20 | 8,160 | 269 |
| 36,985 | Deposits paid for acquisition of properties | 21 | 29,258 | – |
| 6,583 | Deferred tax assets | 27(b) | 5,208 | 1,836 |
| 296,089 | | | 234,229 | 175,595 |
| | **Current assets** | | | |
| 245,874 | Trade receivables | 22 | 194,505 | 214,283 |
| 81,389 | Other receivables, deposits and prepayments | 23 | 64,385 | 65,373 |
| 162,727 | Deposits and cash | 24 | 128,730 | 140,500 |
| 489,990 | | | 387,620 | 420,156 |
| | **Current liabilities** | | | |
| 29,064 | Trade payables | 25 | 22,992 | 19,850 |
| 96,046 | Other payables and accruals | 25 | 75,980 | 78,776 |
| 107 | Amount due to an associate | 18 | 85 | 1,142 |
| 59,149 | Bank loans | 26 | 46,791 | 34,014 |
| 32,357 | Taxation payable | 27(a) | 25,597 | 28,411 |
| 216,723 | | | 171,445 | 162,193 |
| 273,267 | **Net current assets** | | 216,175 | 257,963 |

# *Consolidated Statement of Financial Position* *(continued)*

at 31 December 2013

| 2013 HK$'000 | | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| 569,356 | Total assets less current liabilities | | 450,404 | 433,558 |
| | Non-current liabilities | | | |
| (11,985) | Bank loans | 26 | (9,481) | (11,350) |
| (2,957) | Deferred tax liabilities | 27(b) | (2,339) | (1,942) |
| (14,942) | | | (11,820) | (13,292) |
| 554,414 | NET ASSETS | | 438,584 | 420,266 |
| | CAPITAL AND RESERVES | | | |
| 4,864 | Share capital | 28 | 3,848 | 3,848 |
| 549,550 | Reserves | 29 | 434,736 | 416,418 |
| 554,414 | TOTAL EQUITY | | 438,584 | 420,266 |

Approved and authorised for issue by the board of Directors on 18 March 2014.

| | | |
|---|---|---|
| SHAO ZHONG | ) | |
| | ) | |
| | ) | Directors |
| WONG SHING FAT | ) | |
| | ) | |

The notes on pages 77 to 145 form part of these financial statements.

# *Statement of Financial Position*

at 31 December 2013

| 2013 HK$'000 | | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| | **Non-current asset** | | | |
| 11,130 | Investments in subsidiaries | 17 | 8,805 | 8,805 |
| | **Current assets** | | | |
| 10,205 | Receivables, deposits and prepayments | 23 | 8,073 | 8,298 |
| 205,433 | Amounts due from subsidiaries | 17 | 162,513 | 154,829 |
| 202 | Deposits and cash | 24 | 160 | 267 |
| 215,840 | | | 170,746 | 163,394 |
| | **Current liabilities** | | | |
| 1,080 | Payables and accruals | 25 | 855 | 405 |
| 20,000 | Bank loans | 26 | 15,821 | 6,494 |
| 5,758 | Amounts due to subsidiaries | 17 | 4,555 | 4,674 |
| 26,838 | | | 21,231 | 11,573 |
| 189,002 | **Net current assets** | | 149,515 | 151,821 |
| 200,132 | **NET ASSETS** | | 158,320 | 160,626 |
| | **CAPITAL AND RESERVES** | | | |
| 4,864 | Share capital | 28 | 3,848 | 3,848 |
| 195,268 | Reserves | 29 | 154,472 | 156,778 |
| 200,132 | **TOTAL EQUITY** | | 158,320 | 160,626 |

Approved and authorised for issue by the board of Directors on 18 March 2014.

| | | |
|---|---|---|
| SHAO ZHONG | ) | |
| | ) | |
| | ) | Directors |
| WONG SHING FAT | ) | |
| | ) | |

The notes on pages 77 to 145 form part of these financial statements.

# *Consolidated Statement of Changes in Equity*

for the year ended 31 December 2013

| | Share capital (Note 28) RMB'000 | Shares held for Share Award Scheme (Note 28(b)) RMB'000 | Employee share-based compensation reserve (Note 28(c)) RMB'000 | Share premium (Note 29(c)) RMB'000 | Other reserve (Note 29(c)) RMB'000 | Statutory surplus and general reserves (Note 29(c)) RMB'000 | Exchange reserve (Note 29(c)) RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 3,848 | (6,124) | – | 144,357 | 4,259 | 37,465 | (2,447) | 238,908 | 420,266 |
| Changes in equity for 2013: | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | 33,187 | 33,187 |
| Other comprehensive income (note 8) | – | – | – | – | – | – | (2,536) | – | (2,536) |
| Total comprehensive income for the year | – | – | – | – | – | – | (2,536) | 33,187 | 30,651 |
| Employee share-based compensation benefits | – | – | 869 | – | – | – | – | – | 869 |
| Dividend approved in respect of the previous year (note 29(b)) | – | – | – | – | – | – | – | (19,168) | (19,168) |
| Shares awarded for Share Award Scheme (note 28(c)(iv)) | | | | | | | | | |
| — Vested | – | 3,384 | – | – | – | – | – | 2,350 | 5,734 |
| — Dividend reinvested | – | 232 | – | – | – | – | – | – | 232 |
| At 31 December 2013 | 3,848 | (2,508) | 869 | 144,357 | 4,259 | 37,465 | (4,983) | 255,277 | 438,584 |
| At 1 January 2012 | 3,848 | (7,177) | – | 144,357 | 4,259 | 33,445 | (4,410) | 190,153 | 364,475 |
| Changes in equity for 2012: | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | 65,268 | 65,268 |
| Other comprehensive income (note 8) | – | – | – | – | – | – | 1,963 | – | 1,963 |
| Total comprehensive income for the year | – | – | – | – | – | – | 1,963 | 65,268 | 67,231 |
| Dividend approved in respect of the previous year (note 29(b)) | – | – | – | – | – | – | – | (12,493) | (12,493) |
| Shares awarded under Share Award Scheme (note 28(c)(iv)) | | | | | | | | | |
| — Vested | – | 904 | – | – | – | – | – | – | 904 |
| — Dividend reinvested | – | 149 | – | – | – | – | – | – | 149 |
| Transfer to reserves | – | – | – | – | – | 4,020 | – | (4,020) | – |
| At 31 December 2012 | 3,848 | (6,124) | – | 144,357 | 4,259 | 37,465 | (2,447) | 238,908 | 420,266 |

The notes on pages 77 to 145 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2013

| 2013 HK$'000 | | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| | **Operating activities** | | | |
| 65,015 | Profit before taxation | | 51,432 | 92,752 |
| | Adjustments for: | | | |
| 25,891 | Depreciation of fixed assets | 6(d) | 20,482 | 20,405 |
| 11,304 | Amortisation of intangible assets | 6(d) | 8,942 | 4,855 |
| 157 | Impairment losses on trade receivables recognised/(written back), net | 6(d) | 124 | (14) |
| 8,347 | Share-based payment expense | 6(b) | 6,603 | 904 |
| (957) | Interest income | 5(a) | (757) | (983) |
| 3,105 | Finance costs | 6(a) | 2,456 | 2,848 |
| (61) | Share of profit of associates | 18 | (48) | (267) |
| (472) | Share of (profit)/loss of a joint venture | 19 | (373) | 366 |
| 340 | Impairment loss on investments | 20 | 269 | 1,731 |
| 100 | Loss on disposals of fixed assets | 5(b) | 79 | 519 |
| (1,710) | Foreign exchange difference | | (1,353) | 1,982 |
| | Changes in working capital: | | | |
| – | Decrease in amount due to a joint venture | | – | (2,062) |
| (1,336) | (Decrease)/increase in amount due to an associate | | (1,057) | 1,142 |
| 24,537 | Decrease/(increase) in trade receivables | | 19,411 | (17,574) |
| 837 | Decrease in other receivables, deposits and prepayments | | 662 | 9,769 |
| 3,981 | Increase/(decrease) in trade payables | | 3,149 | (4,066) |
| (3,521) | Decrease in other payables and accruals | | (2,785) | (11,178) |
| 135,557 | **Cash generated from operations** | | 107,236 | 101,129 |
| (30,360) | PRC Corporate Income Tax paid | 27(a) | (24,017) | (27,848) |
| 105,197 | **Net cash generated from operating activities** | | 83,219 | 73,281 |

# *Consolidated Cash Flow Statement (continued)*

for the year ended 31 December 2013

| 2013 HK$'000 | | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| | Investing activities | | | |
| 957 | Interest received | | 757 | 983 |
| (41,846) | Payment for purchase of fixed assets | 13(a) | (33,103) | (25,427) |
| – | Payment for purchase of intangible assets | 14 | – | (3,486) |
| (11,577) | Payment for software development in progress | 16 | (9,158) | (7,446) |
| 9 | Proceeds from disposals of fixed assets | | 7 | 127 |
| (10,315) | Payment for unlisted investments | 20 | (8,160) | – |
| (36,985) | Payment for acquisition of properties | 21 | (29,258) | – |
| 1,163 | Decrease/(increase) in pledged deposits | 24 | 920 | (3,360) |
| (7,051) | Payment for business combinations | 33(a) | (5,578) | (17,910) |
| – | Payment for investment in an associate | | – | (3,484) |
| (105,645) | Net cash used in investing activities | | (83,573) | (60,003) |
| | Financing activities | | | |
| (3,105) | Interest paid | | (2,456) | (2,848) |
| (23,937) | Dividends paid | | (18,936) | (12,344) |
| 49,074 | Proceeds from new bank loans | | 38,821 | 25,780 |
| (35,076) | Repayment of bank loans | | (27,748) | (29,227) |
| (13,044) | Net cash used in financing activities | | (10,319) | (18,639) |
| (13,492) | Net decrease in cash and cash equivalents | | (10,673) | (5,361) |
| 173,359 | Cash and cash equivalents at beginning of the year | | 137,140 | 142,487 |
| (224) | Effect of foreign exchange rates changes | | (177) | 14 |
| 159,643 | Cash and cash equivalents at end of the year | 24 | 126,290 | 137,140 |

The notes on pages 77 to 145 form part of these financial statements.

# Notes to the Financial Statements

## 1 CORPORATE INFORMATION

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

- Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*
- Amendments to IFRS 7, *Financial instruments: Disclosures — Offsetting financial assets and financial liabilities*
- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 12, *Disclosure of interests in other entities*
- *Annual Improvements to IFRSs 2009-2011 Cycle*

#### Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

In addition, the Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Statement of compliance (continued)

**Amendments to IFRS 7, Financial instruments: Disclosures — Offsetting financial assets and financial liabilities**

The amendments to IFRS 7 require companies to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group has outstanding derivative financial instruments presented as financial assets/liabilities in the consolidated statement of financial position which are under master netting agreements. The amendments to IFRS 7 require retrospective application. The application of the amendments has had no impact on the results or financial position of the Group but results in additional disclosures in the Group's consolidated financial statements.

**IFRS 10, Consolidated financial statements**

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

**IFRS 11, Joint arrangements**

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

**IFRS 12, Disclosure of interests in other entities**

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Company, the Company has provided those disclosures in notes 18 and 19.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (a) Statement of compliance *(continued)*

**Annual Improvements to IFRSs 2009-2011 Cycle**

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets in note 12. However, the Group does not disclose segment liabilities on the basis that the amounts are not regularly provided to the CODM.

None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 37).

### (b) Basis of preparation of the financial statements

(i) The consolidated financial statements for the year ended 31 December 2013 comprise the Group and the Group's interests in associates and a joint venture.

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

The amounts in these financial statements are presented in RMB. The translation into Hong Kong dollars ("HK$") of these financial statements as of, and for the year ended 31 December 2013 is for convenience only and has been made at the rate of HK$1.2641 to RMB1. This translation should not be construed as a representation that the RMB amounts actually represented have been, or could be, converted into Hong Kong dollars at this or any other rate.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary and contributions to controlled special purpose entity are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

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

### (d) Associates and joint venture

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

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Associates and joint venture *(continued)*

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

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

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

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

### (f) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs; except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Fixed assets

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

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

| | |
|---|---|
| — Land and buildings held for own use | 40–50 years |
| — Office equipment | 3–5 years |
| — Furniture and fixtures | 3–10 years |
| — Motor vehicles | 5–10 years |

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

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

### (h) Intangible assets (other than goodwill)

#### (i) Computer software systems

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets if the related software does not form an integral part of the hardware on which it operates and when the following criteria are met:

— It is technically feasible to complete the software product so that it will be available for use;

— management intends to complete the software product and use or sell it;

— there is an ability to use or sell the software product;

— it can be demonstrated how the software product will generate probable future economic benefits;

— adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

— the expenditure attributable to the software product during its development can be reliably measured.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Intangible assets (other than goodwill) *(continued)*

#### (i) Computer software systems *(continued)*

Other development expenditures that do not meet these criteria are recognised in profit or loss as incurred. Development costs previously recognised in profit or loss are not recognised as an asset in a subsequent period.

Qualifying software system development expenditures and related directly attributable costs capitalised as intangible assets are amortised when they are available for use. They are amortised at rates sufficient to write off their costs net of residual values over their estimated useful lives on a straight-line basis, which do not exceed five years. The residual values and useful lives are reviewed, and adjusted if applicable, at the end of each reporting period.

Costs associated with maintaining computer systems and software programmes are recognised in profit or loss as incurred.

#### (ii) Other intangible assets

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

#### (iii) Amortisation

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

| | |
|---|---|
| — Publication rights | 80 months |
| — Customer relationship | 3–5 years |
| — Domain and IT platform | 3–10 years |
| — Computer software systems | 3–5 years |
| — Club membership | 15 years |

Both the period and method of amortisation are reviewed annually.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Leased assets

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

#### (i) Classification of assets leased to the Group

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

#### (ii) Assets acquired under finance leases

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

#### (iii) Operating lease charges

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Impairment of assets

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

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

— significant financial difficulty of the debtor;

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

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

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

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

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

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Impairment of assets *(continued)*

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

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

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

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

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the fixed assets, intangible assets, investments, goodwill and investments in subsidiaries and contributions to controlled special purpose entity in the Company's statement of financial position may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Impairment of assets *(continued)*

#### (ii) Impairment of other assets *(continued)*

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

### (k) Trade and other receivables

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (l) Cash and cash equivalents

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

### (m) Trade and other payables

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

### (n) Interest-bearing borrowings

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

### (o) Employee benefits

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

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

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

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

#### (iii) Share based payments

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (o) Employee benefits *(continued)*

#### (iii) Share based payments *(continued)*

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

#### (iv) Shares held for Share Award Scheme

Where the Company's shares are acquired by the Share Award Scheme from the market, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired from reinvesting dividends received on the Awarded Shares are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

#### (v) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Income tax

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

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

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

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

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Income tax *(continued)*

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

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

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

  — the same taxable entity; or

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

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

#### (i) Financial guarantees issued

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables and accruals. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

#### (ii) Contingent liabilities acquired in business combinations

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

#### (iii) Other provision and contingent liabilities

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

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

### (r) Revenue recognition

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

#### (i) Advertising income

Revenue from advertising contracts and sales of air-time television advertisements, sales of product placement advertisements within television programme, net of returns, rebates, business tax and related surcharge, are recognised upon the publication of the magazine and release of the television programme available to public in which the advertisement is placed.

#### (ii) Circulation and subscription income

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

Unearned subscriptions fees received from subscribers are recorded as subscriptions received in advance under trade and other payables in the consolidated statement of financial position.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Revenue recognition (continued)

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

TV production, sponsorship, event and service income is recognised when the relevant services are provided.

#### (iv) Interest income

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

#### (v) Government grants

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

#### (vi) Dividends

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

### (s) Translation of foreign currencies

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (s) Translation of foreign currencies *(continued)*

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

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

### (t) Borrowing costs

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

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

### (u) Related parties

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

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

  (b) has significant influence over the Group; or

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Related parties *(continued)*

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

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

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

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

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

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

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

### (v) Segment reporting

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

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

## 3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

As stated in note 38, the Group has been conducting its operations in certain restricted industries through entities ("PRC Operational Entities") which are held by Mr. Shao Zhong ("Mr. Shao"), an Executive Director/controlling shareholder of the Group. Based on the contractual arrangements, the Group has effective control over the financial and operational policies of the PRC Operational Entities and derives economic benefits from the operations of the PRC Operational Entities. Accordingly, these PRC Operational Entities are regarded as subsidiaries of the Group; and their financial results and positions are consolidated into the Group.

## 3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

### (b) Key sources of estimation uncertainty

Note 34 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

#### (i) Impairment of trade receivables

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

#### (ii) Assessment of impairment of non-current assets

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

#### (iii) Depreciation and amortisation

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

#### (iv) Income taxes

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

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

## 3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

### (b) Key sources of estimation uncertainty *(continued)*

#### (v) Determination of fair values of identifiable intangible assets arising from the business combinations

As disclosed in note 33, the Group acquired a business operation during the year ended 31 December 2013.

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

In accordance with the above assessment, goodwill of RMB1,829,000 (2012: RMB15,242,000) was determined to be arising from the acquisitions at the acquisition date (note 33).

## 4 TURNOVER

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

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Advertising income | 591,022 | 644,147 |
| Circulation income | 17,065 | 16,106 |
| TV production, sponsorship, event and service income | 44,495 | 26,436 |
| | 652,582 | 686,689 |
| Less: Sales taxes and other surcharges | (21,402) | (31,376) |
| | 631,180 | 655,313 |

## 5 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

### (a) Other revenue

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Interest income from bank deposits | 757 | 983 |
| PRC government incentives (note) | 3,262 | 11,779 |
| Others | 43 | – |
| | 4,062 | 12,762 |

Note: PRC government incentives represented the amounts received by various subsidiaries of the Group, and which were computed based on a specified percentage of enterprise income tax, value-added tax, business tax, city development tax and individual income tax paid in the previous years.

### (b) Other net income/(loss)

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Net foreign exchange gain | 432 | 153 |
| Loss on disposals of fixed assets | (79) | (519) |
| | 353 | (366) |

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **(a) Finance costs** | | |
| Interest charged on: | | |
| — Bank loans repayable within 5 years | 1,580 | 1,816 |
| — Bank loans repayable after 5 years | 876 | 1,032 |
| | 2,456 | 2,848 |
| **(b) Staff costs** | | |
| Salaries, wages and other benefits | 178,092 | 172,311 |
| Share-based payments expense (note 28(c)(i)) | 6,603 | 904 |
| Contributions to defined contribution retirement plan (note) | 34,344 | 34,706 |
| | 219,039 | 207,921 |
| Less: Amount included in research and development expenditure (note 6(c)) | (7,288) | (6,054) |
| | 211,751 | 201,867 |
| Staff costs included in: | | |
| — Cost of sales | 96,427 | 83,312 |
| — Selling and distribution expenses | 66,863 | 58,584 |
| — Administrative and other operating expenses | 48,461 | 59,971 |
| | 211,751 | 201,867 |
| **(c) Research and development expenditure** | | |
| Research and development expenditure comprise of: | | |
| — Staff costs (note 6(b)) | 7,288 | 6,054 |
| — Other research and development expenditure and overheads | 2,436 | 5,165 |
| | 9,724 | 11,219 |
| Less: Amounts capitalised (note 16) | (9,158) | (10,932) |
| | 566 | 287 |
| **(d) Other items** | | |
| Depreciation of fixed assets | 20,482 | 20,405 |
| Amortisation of intangible assets | 8,942 | 4,855 |
| Auditors' remuneration | | |
| — Audit services | 1,776 | 1,981 |
| — Other services | 445 | 355 |
| Operating lease charges in respect of properties | 25,919 | 23,423 |
| Impairment losses on trade receivables recognised/(written back), net | 124 | (14) |
| Impairment loss on investments | 269 | 1,731 |

## 6 PROFIT BEFORE TAXATION (continued)

Note: Employees of the Group's subsidiaries operated in the PRC are required to participate in a defined contribution retirement benefit scheme administered and operated by the local municipal government. The Group's subsidiaries operated in the PRC are required to make contributions to the scheme at 20% of the employees' salaries for the years ended 31 December 2013 and 2012 to fund the retirement benefits of the employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the MPF scheme vest immediately.

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

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Current tax — PRC Corporate Income Tax** | | |
| Provision for the year | 16,881 | 22,228 |
| Withholding tax (note (v)) | 2,782 | 1,006 |
| Under/(over)-provision in respect of prior years | 1,558 | (508) |
| | 21,221 | 22,726 |
| **Deferred tax** | | |
| Origination and reversals of temporary differences (note 27(b)) | (2,976) | 4,758 |
| | 18,245 | 27,484 |

Notes:

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

(ii) The provision for PRC Corporate Income Tax for the years ended 31 December 2013 and 2012 was calculated at the prevailing tax rates, pursuant to the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law.

(iii) The provision for Hong Kong Profits Tax for the years ended 31 December 2013 and 2012 was calculated at 16.5% of the estimated assessable profits for the respective years. No provision for Hong Kong Profits Tax for the years ended 31 December 2013 and 2012 has been made on the subsidiaries in Hong Kong for Hong Kong Profits Tax as either the tax losses brought forward from previous years exceed the estimated assessable profits for the year or the subsidiaries have no estimated assessable profits in Hong Kong.

(iv) No tax attributable to associates and joint venture for the years ended 31 December 2013 and 2012 are included in the share of results of associates and joint venture respectively.

(v) During the year ended 31 December 2013, the Group made a provision of RMB2,782,000 (2012: RMB1,006,000) in respect of withholding income tax on (i) dividends distributed by Modern Media (Zhuhai) Technology Co., Ltd. ("Zhuhai Technology") and (ii) services income charged to PRC subsidiaries.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Profit before taxation | 51,432 | 92,752 |
| Notional tax on profit before taxation, calculated at the rate of 25% (2012: 25%) | 12,858 | 23,188 |
| Effect of differential tax rate on income | 4,792 | 3,625 |
| Tax effect of non-deductible expenses | 584 | 1,621 |
| Tax effect of non-taxable revenue | (4,291) | (3,324) |
| Tax effect of prior years' unrecognised tax losses recognised this year | (7) | – |
| Tax effect of prior years' unrecognised tax losses utilised this year | (176) | (240) |
| Tax effect of prior years' unrecognised deductible temporary differences (recognised)/utilised | (3,246) | 1,872 |
| Tax effect of unused tax losses not recognised | 3,304 | 478 |
| Withholding tax | 2,782 | 1,006 |
| Under/(over)-provision in prior years | 1,558 | (508) |
| Others | 87 | (234) |
| Actual tax expense | 18,245 | 27,484 |

## 8 OTHER COMPREHENSIVE INCOME

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Exchange differences on translation of financial statements of: | | |
| — an overseas associate | (240) | (50) |
| — overseas subsidiaries | (2,296) | 2,013 |
| | (2,536) | 1,963 |

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

## 9 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company, and the weighted average number of ordinary shares in issue (after adjusting for shares held for share award scheme) of 434,757,000 shares (2012: 432,428,000 shares) calculated as follows:

| | 2013<br>'000 | 2012<br>'000 |
|---|---|---|
| Issued ordinary shares as at 1 January | 437,850 | 437,850 |
| Effect of shares held for share award scheme | (3,093) | (5,422) |
| Weighted average number of ordinary shares at 31 December | 434,757 | 432,428 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company, and the weighted average number of ordinary shares of 435,568,000 shares (2012: 432,428,000 shares), calculated as follows:

| | 2013<br>'000 | 2012<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 December | 434,757 | 432,428 |
| Effect of deemed issue of shares for nil consideration with respect to the Linkchic Acquisition (note 28(c)) | 811 | – |
| Weighted average number of ordinary shares (diluted) at 31 December | 435,568 | 432,428 |

## 10 DIRECTORS' REMUNERATION

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

| | Year ended 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | Fees RMB'000 | Basic salaries, allowances and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| **Executive Directors** | | | | | |
| SHAO Zhong | – | 2,483 | – | 72 | 2,555 |
| WONG Shing Fat | – | 2,493 | 1,649 | 79 | 4,221 |
| LI Jian | – | 1,287 | 1,551 | 72 | 2,910 |
| MOK Chun Ho, Neil | – | 1,115 | 716 | 39 | 1,870 |
| CUI Jianfeng | – | 927 | 1,063 | 12 | 2,002 |
| **Non-executive Director** | | | | | |
| CHENG Chi Kong (note (i)) | 137 | – | – | – | 137 |
| **Independent non-executive Directors** | | | | | |
| MAO Xiaofeng | 132 | – | – | – | 132 |
| JIANG Nanchun | 132 | – | – | – | 132 |
| WANG Shi | 132 | – | – | – | 132 |
| AU-YEUNG Kwong Wah | 210 | – | – | – | 210 |
| Total | 743 | 8,305 | 4,979 | 274 | 14,301 |

## 10 DIRECTORS' REMUNERATION *(continued)*

| | Year ended 31 December 2012 | | | | |
|---|---|---|---|---|---|
| | Fees RMB'000 | Basic salaries, allowances and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| **Executive Directors** | | | | | |
| SHAO Zhong | – | 2,644 | 200 | 62 | 2,906 |
| WONG Shing Fat | – | 2,540 | 2,134 | 81 | 4,755 |
| LI Jian | – | 1,435 | 1,428 | 66 | 2,929 |
| MOK Chun Ho, Neil | – | 1,268 | 564 | 40 | 1,872 |
| CUI Jianfeng | – | 1,079 | 1,265 | 11 | 2,355 |
| **Non-executive Director** | | | | | |
| CHENG Chi Kong (note (i)) | – | – | – | – | – |
| **Independent non-executive Directors** | | | | | |
| MAO Xiaofeng | 110 | – | – | – | 110 |
| JIANG Nanchun | 132 | – | – | – | 132 |
| WANG Shi | 132 | – | – | – | 132 |
| AU-YEUNG Kwong Wah | 210 | – | – | – | 210 |
| Total | 584 | 8,966 | 5,591 | 260 | 15,401 |

Notes:

(i) Mr. CHENG Chi Kong was appointed as a non-executive Director of the Company with effect from 1 April 2013.

(ii) No Director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No Director waived or agreed to waive any emoluments during the years ended 31 December 2013 and 2012.

(iii) The Company has not granted any options under its share option scheme adopted on 24 August 2009 during the years ended 31 December 2013 and 2012.

(iv) Certain discretionary bonuses of RMB1,939,000 remunerated to Directors of the Company in 2012 were settled in the form of the awarded shares under the Share Award Scheme during the year ended 31 December 2013. Details of the shares awarded are set out in note 28(c)(iii).

## 11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

### (a) Emoluments of five highest individuals

The five highest paid individuals of the Group include 4 Directors during the year ended 31 December 2013 (2012: 4) whose emoluments are disclosed in note 10. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits in kind | 2,820 | 2,498 |
| Discretionary bonus | 84 | 97 |
| Retirement scheme contributions | – | – |
| | 2,904 | 2,595 |

The emoluments of these individuals are within the following band:

| | Number of individuals | |
|---|---|---|
| | 2013 | 2012 |
| RMB2,500,001 to RMB3,000,000 | 1 | 1 |

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2013 and 2012.

### (b) Emoluments of senior management

Other than the directors' remuneration and emoluments of five highest individuals disclosed in notes 10 and 11(a), the emoluments of the senior management whose profiles are included in Senior Management Profile section of this report fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2013 | 2012 |
| RMB500,001 to RMB1,000,000 | 3 | 1 |
| RMB1,000,001 to RMB1,500,000 | 3 | 3 |
| RMB1,500,001 to RMB2,000,000 | – | 2 |
| RMB2,000,001 to RMB2,500,000 | – | – |
| RMB2,500,001 to RMB3,000,000 | 1 | 1 |
| | 7 | 7 |

## 12 SEGMENT REPORTING

The Group has three (2012 (restated): three) reportable segments as described below, which are the Group's strategic business units. During the year ended 31 December 2013, internal management reports have been reviewed and adjusted by the Group's management to aggregate the print media advertising and circulation into print media segment to reflect the financial performance of print media business as a whole. For each of the business units, the Group's senior executive management reviews internal management reports on a monthly basis. Segment information below is presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The following describes the operations in each of the Group's reportable segments:

— Print media: this segment engages in the sale of advertising space in, the publication of and the distribution of the Group's magazines.

  The Group's print media business was previously segregated into two reportable segments of print media advertising and circulation. These two reportable segments are re-grouped as "Print media" segment to conform with the internal management reporting. The comparative figures have been restated accordingly.

— Digital media: this segment is a digital media platform in which the Group publishes multiple digital media products and sells advertising spaces.

— Television: this segment engages in the production of customised contents for brand advertisers.

  Prior to the change in the operating strategy of the Group's television business unit, this segment previously engaged in sales of air-time television advertisements, sales of product placement advertisements within television programs, and syndication income from distributing programs to various television channels.

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

### (a) Segment results and assets

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

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

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

## 12 SEGMENT REPORTING *(continued)*

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below:

| | 2013 | | | |
|---|---|---|---|---|
| | Print media RMB'000 | Digital media RMB'000 | Television RMB'000 | Total RMB'000 |
| Revenue derived from the Group's external customers | 583,084 | 41,234 | 12,085 | 636,403 |
| Inter-segment revenue | – | – | – | – |
| Reportable segment revenue | 583,084 | 41,234 | 12,085 | 636,403 |
| Reportable segment profit/(loss) | 69,143 | (8,955) | (2,950) | 57,238 |
| Depreciation for the year | (16,441) | (1,042) | (2,424) | (19,907) |
| Amortisation for the year | (742) | (8,143) | – | (8,885) |
| Reportable segment assets as at 31 December 2013 | 269,165 | 91,515 | 8,093 | 368,773 |

| | 2012 (restated) | | | |
|---|---|---|---|---|
| | Print media RMB'000 | Digital media RMB'000 | Television RMB'000 | Total RMB'000 |
| Revenue derived from the Group's external customers | 630,932 | 31,919 | 5,192 | 668,043 |
| Inter-segment revenue | – | 2,283 | – | 2,283 |
| Reportable segment revenue | 630,932 | 34,202 | 5,192 | 670,326 |
| Reportable segment profit/(loss) | 100,738 | 12,819 | (10,214) | 103,343 |
| Depreciation for the year | (16,026) | (1,473) | (2,331) | (19,830) |
| Amortisation for the year | (508) | (4,347) | – | (4,855) |
| Reportable segment assets as at 31 December 2012 | 295,332 | 73,035 | 6,984 | 375,351 |

## 12 SEGMENT REPORTING *(continued)*

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue derived from the Group's external customers | 636,403 | 668,043 |
| Other income | 16,179 | 18,646 |
| Less: Sales taxes and other surcharges | (21,402) | (31,376) |
| Consolidated turnover | 631,180 | 655,313 |
| **Profit** | | |
| Reportable segment profit derived from the Group's external customers | 57,238 | 103,343 |
| Other income | 16,179 | 18,646 |
| Share of profit of associates | 48 | 267 |
| Impairment loss on investments | (269) | (1,731) |
| Share of profit/(loss) of a joint venture | 373 | (366) |
| Unallocated head office and corporate expense (note) | (22,137) | (27,407) |
| Consolidated profit before taxation | 51,432 | 92,752 |

Note: Depreciation of RMB575,000 is included in unallocated head office and corporate expense for the year ended 31 December 2013 (2012: RMB575,000).

Amortisation of RMB57,000 is included in unallocated head office and corporate expenses for the year ended 31 December 2013 (2012: RMBNil).

Interest income of RMB757,000 is included in unallocated head office and corporate expense for the year ended 31 December 2013 (2012: RMB983,000).

Interest expenses of RMB2,456,000 is included in unallocated head office and corporate expenses for the year ended 31 December 2013 (2012: RMB2,848,000).

## 12 SEGMENT REPORTING *(continued)*

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | 368,773 | 375,351 |
| Corporate and unallocated assets | 8,193 | 3,461 |
| Interests in associates | 7,517 | 7,709 |
| Interest in a joint venture | 1,625 | 1,252 |
| Investments | 8,160 | 269 |
| Non-current prepayments | 29,258 | – |
| Deferred tax assets | 5,208 | 1,836 |
| Other receivables, deposits and prepayments | 64,385 | 65,373 |
| Deposits and cash | 128,730 | 140,500 |
| Consolidated total assets | 621,849 | 595,751 |

### (c) Geographic information

The following table sets out information about the geographical location of the Group's fixed assets, intangible assets, goodwill, software development in progress, investments and interests in associates and a joint venture ("specified non-current assets"). The geographical location of the specified non-current assets is based on (i) the physical location of the asset, in the case of fixed assets; (ii) the location of the operation to which they are allocated, in the case of intangible assets, goodwill and software development in progress; and (iii) the location of operations, in the case of investments and interests in associates and a joint venture.

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| The PRC (place of domicile) | 177,551 | 154,048 |
| Hong Kong | 17,826 | 15,690 |
| Japan | 3,191 | 3,410 |
| Taiwan | 1,195 | 611 |
| | 199,763 | 173,759 |

### (d) Major customers

The Group's customer base includes one customer (2012: one customer) with whom transactions have exceeded 10% of the Group's revenues. During the years ended 31 December 2013 and 2012, advertising income from this customer amounted to RMB86,618,000 and RMB81,985,000 respectively and arose mainly in print media reportable segment.

## 13 FIXED ASSETS

### (a) The Group

| | Land and buildings held for own use RMB'000 | Leasehold improvements RMB'000 | Office equipment RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2012 | 48,665 | 41,382 | 29,820 | 27,581 | 13,657 | 161,105 |
| Additions | – | 4,246 | 5,924 | 14,354 | 903 | 25,427 |
| Arising from business combinations | – | – | 1,844 | – | – | 1,844 |
| Disposals | – | (3,557) | (5,385) | (447) | (84) | (9,473) |
| Exchange differences | – | (4) | 1 | (13) | 2 | (14) |
| At 31 December 2012 and at 1 January 2013 | 48,665 | 42,067 | 32,204 | 41,475 | 14,478 | 178,889 |
| Additions | 11,851 | 2,982 | 9,505 | 8,367 | 398 | 33,103 |
| Arising from business combination (note 33) | – | – | 241 | 19 | – | 260 |
| Disposals | – | (1,175) | (1,999) | – | – | (3,174) |
| Exchange differences | – | (61) | (37) | (329) | (36) | (463) |
| At 31 December 2013 | 60,516 | 43,813 | 39,914 | 49,532 | 14,840 | 208,615 |
| Accumulated depreciation: | | | | | | |
| At 1 January 2012 | 4,650 | 19,138 | 16,852 | 7,654 | 4,581 | 52,875 |
| Arising from business combinations | – | – | 1,306 | – | – | 1,306 |
| Charge for the year | 959 | 7,079 | 5,936 | 4,052 | 2,379 | 20,405 |
| Written back on disposals | – | (3,417) | (4,910) | (420) | (80) | (8,827) |
| Exchange differences | – | – | 1 | (3) | 1 | (1) |
| At 31 December 2012 and at 1 January 2013 | 5,609 | 22,800 | 19,185 | 11,283 | 6,881 | 65,758 |
| Arising from business combination (note 33) | – | – | 93 | 10 | – | 103 |
| Charge for the year | 1,072 | 6,549 | 5,759 | 4,797 | 2,305 | 20,482 |
| Written back on disposals | – | (1,175) | (1,913) | – | – | (3,088) |
| Exchange differences | – | (16) | (31) | (77) | (34) | (158) |
| At 31 December 2013 | 6,681 | 28,158 | 23,093 | 16,013 | 9,152 | 83,097 |
| Net book value: | | | | | | |
| At 31 December 2013 | 53,835 | 15,655 | 16,821 | 33,519 | 5,688 | 125,518 |
| At 31 December 2012 | 43,056 | 19,267 | 13,019 | 30,192 | 7,597 | 113,131 |

## 13 FIXED ASSETS (continued)

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Leasehold properties held outside Hong Kong | | |
| — Medium-term leases (20-50 years) | 34,048 | 34,846 |
| — Long-term leases (over 50 years) | 19,787 | 8,210 |
| | 53,835 | 43,056 |

### (c) Pledge of assets

Land and buildings held by a subsidiary with carrying value of RMB34,048,000 (2012: RMB34,846,000) was pledged as security for the bank loans amounted to RMB11,351,000 as at 31 December 2013 (2012: RMB13,090,000) (note 26).

## 14 INTANGIBLE ASSETS

### The Group

| | Publishing rights RMB'000 | Customer relationship RMB'000 | Domain and IT platform RMB'000 | Computer software systems RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2012 | 3,000 | 3,652 | – | – | 1,374 | 8,026 |
| Additions | – | – | – | 3,486 | – | 3,486 |
| Exchange differences | – | – | – | – | 1 | 1 |
| Arising from business combinations | – | 6,730 | 4,239 | – | 800 | 11,769 |
| At 31 December 2012 and at 1 January 2013 | 3,000 | 10,382 | 4,239 | 3,486 | 2,175 | 23,282 |
| Additions (note 16) | – | – | – | 14,027 | – | 14,027 |
| Exchange differences | – | – | – | (89) | (21) | (110) |
| Arising from business combination (note 33) | | | | | | |
| — Linkchic Acquisition | – | – | 3,590 | – | – | 3,590 |
| At 31 December 2013 | 3,000 | 10,382 | 7,829 | 17,424 | 2,154 | 40,789 |
| **Accumulated amortisation:** | | | | | | |
| At 1 January 2012 | 1,275 | 1,252 | – | – | 151 | 2,678 |
| Exchange difference | – | – | – | – | – | – |
| Charge for the year | 450 | 2,768 | 718 | 127 | 792 | 4,855 |
| At 31 December 2012 and at 1 January 2013 | 1,725 | 4,020 | 718 | 127 | 943 | 7,533 |
| Exchange difference | – | – | – | (14) | (6) | (20) |
| Charge for the year | 450 | 3,025 | 1,132 | 4,211 | 124 | 8,942 |
| At 31 December 2013 | 2,175 | 7,045 | 1,850 | 4,324 | 1,061 | 16,455 |
| **Net book value:** | | | | | | |
| At 31 December 2013 | 825 | 3,337 | 5,979 | 13,100 | 1,093 | 24,334 |
| At 31 December 2012 | 1,275 | 6,362 | 3,521 | 3,359 | 1,232 | 15,749 |

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

## 15 GOODWILL

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| At 1 January | 28,203 | 12,961 |
| Arising from business combinations | | |
| — Mobilezine Acquisition | – | 2,399 |
| — Website Acquisition | – | 12,843 |
| — Linkchic Acquisition (note 33) | 1,829 | – |
| At 31 December | 30,032 | 28,203 |

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and operating segment as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Digital media — the PRC | 30,032 | 28,203 |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows are discounted using discount rates of 17.0% (2012: 23.8%). The growth rates used do not exceed the long term growth rate for the business in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

As at 31 December 2013, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. No impairment was recorded.

## 16 SOFTWARE DEVELOPMENT IN PROGRESS

Software development in progress consists of development expenditures and related directly attributable costs on computer software systems of the Group. The amounts are neither past due nor impaired.

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| At 1 January | 7,446 | – |
| Expenditure incurred on software development (note 6(c)) | 9,158 | 10,932 |
| Transferred to intangible assets (note 14) | (14,027) | (3,486) |
| At 31 December | 2,577 | 7,446 |

## 17 INVESTMENTS IN SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Non-current asset** | | |
| Unlisted shares, at cost | – | – |
| Contribution to Modern Media Employee Share Trust | 8,805 | 8,805 |
| | 8,805 | 8,805 |
| **Current assets/(liabilities)** | | |
| Amounts due from subsidiaries | 162,513 | 154,829 |
| Amounts due to subsidiaries | (4,555) | (4,674) |
| | 157,958 | 150,155 |

The particulars of the major subsidiaries comprising the Group and controlled special purpose entity are disclosed in note 38.

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

## 18 INTERESTS IN ASSOCIATES

### The Group

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Non-current asset** | | |
| Share of net assets | 3,462 | 3,654 |
| Goodwill | 4,055 | 4,055 |
| | 7,517 | 7,709 |
| **Current liability** | | |
| Amount due to an associate | (85) | (1,142) |

Amount due to an associate is unsecured, interest-free and repayable within one year.

## 18 INTERESTS IN ASSOCIATES *(continued)*

### The Group *(continued)*

The following list contains the particulars of the Group's associates, all of which are unlisted corporate entities whose quoted market price is not available:

| Name of associates | Place of establishment and operations | Particulars of paid up capital | Proportion of ownership interest: The Group's effective interest | Proportion of ownership interest: Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| Chongqing Yubao Culture Media Co., Ltd. (重慶渝報文化傳播有限公司) ("Chongqing Yubao") | PRC | RMB10,000,000 | 40% | 40% | Wholesaling and retailing Chongqing Yubao; provision of advertising, publication and media service |
| Rakuraku Technologies Inc. ("Rakuraku") | Japan | JPY30,500,000 | 20% | 20% | Developing computer programmes and applications over mobile digital platforms |

As at 31 December 2013, an impairment test was performed by comparing the attributable carrying amount of the associates with the recoverable amount. The recoverable amount is based on estimated discounted cash flow. No impairment was recorded.

Aggregate information of associates that are not individually material:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 7,517 | 7,709 |
| Aggregate amounts of the Group's share of those associates' | | |
| — Profit for the year | 48 | 267 |
| — Other comprehensive income | (240) | (50) |
| — Total comprehensive income | (192) | 217 |

## 19 INTEREST IN A JOINT VENTURE

### The Group

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **Non-current asset** | | |
| Share of net assets | 1,625 | 1,252 |

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

| Name of joint venture | Place and date of establishment and operations | Particulars of paid up capital | Proportion of ownership interest: The Group's effective interest | Proportion of ownership interest: Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| Hangzhou Shili Cultural Media Co., Ltd. ("Hangzhou Shili") (杭州實力文化傳播有限公司) | PRC 3 July 2007 | RMB15,000,000 | 49% | 49% | Publication of magazine in the PRC and selling of advertising spaces |

The Group is entitled to share 49% of the financial results of Hangzhou Shili. Notwithstanding the 49% of the paid up capital of and the profit sharing arrangements of Hangzhou Shili, the Group accounts for the investment in Hangzhou Shili as a joint venture as the Group has joint control over the operating and financial decisions of Hangzhou Shili. Goodwill of RMB817,000 arose from the acquisition of Hangzhou Shili and full provision for impairment was made in prior years.

Summary financial information on the joint venture that is not material:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial joint venture in the consolidated financial statements | 1,625 | 1,252 |
| Aggregate amounts of the Group's share of the joint venture's | | |
| — Profit/(loss) for the year and total comprehensive income | 373 | (366) |

## 20 INVESTMENTS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Equity securities** | | |
| Unlisted equity securities, at cost | 10,160 | 2,000 |
| Less: Provision for impairment | (2,000) | (1,731) |
| Carrying value | 8,160 | 269 |

In October 2013, the Group acquired 20% equity interests in 天津假日傳媒發展有限公司 ("Tianjin Holiday") from an independent third party for a consideration of RMB8,160,000. The investment in Tianjin Holiday is not classified as an investment in associates as the Group does not have significant influence nor participate in the policy-making process and the operating and financial decisions of Tianjin Holiday.

As at 31 December 2013, the carrying value of individually impaired investments amounted to RMBNil (2012: RMB269,000) and impairment loss of RMB269,000 (2012: RMB1,731,000) was recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 following the assessment of recoverable amount of the investment in accordance with accounting policy (note 2(j)).

## 21 DEPOSITS PAID FOR ACQUISITION OF PROPERTIES

In November 2013, Modern Media Company Limited ("MMCL"), an indirect wholly-owned subsidiary of the Company, entered into the Provisional Sale and Purchase Agreements with an independent third party and pursuant to which MMCL has agreed to purchase the leasehold property in Hong Kong for a cash consideration of HK$96,459,920 (equivalent to RMB82,671,000).

At 31 December 2013, the Group paid HK$36,985,525 (equivalent to RMB29,258,000) as deposit for the aforesaid acquisition thereof.

## 22 TRADE RECEIVABLES

The Group normally allows a credit period ranging from 30 to 180 days to its advertising and circulation customers (with a certain limited number of customers granted a credit period of 270 days). Further details on the Group's credit policy are set out in note 34(a).

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Trade receivables | 196,289 | 215,954 |
| Less: Allowance for doubtful debts | (1,784) | (1,671) |
| | 194,505 | 214,283 |

## 22 TRADE RECEIVABLES (continued)

### (a) Ageing analysis

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within 30 days | 70,246 | 87,659 |
| 31 days to 90 days | 80,696 | 74,847 |
| 91 days to 180 days | 30,416 | 37,480 |
| More than 180 days | 14,931 | 15,968 |
| | 196,289 | 215,954 |
| Less: Allowance for doubtful debts | (1,784) | (1,671) |
| | 194,505 | 214,283 |

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

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(j)(i)).

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| At 1 January | 1,671 | 1,854 |
| Impairment loss recognised | 154 | 130 |
| Impairment loss written back | (30) | (144) |
| Uncollectible amounts written off | (11) | (169) |
| At 31 December | 1,784 | 1,671 |

At 31 December 2013, the Group's trade receivables of RMB154,000 (2012: RMB130,000) were individually determined to be impaired respectively. The individually impaired receivables related to customers which management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

## 22 TRADE RECEIVABLES (continued)

### (c) Trade receivables that are not impaired

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Neither past due nor impaired | 122,536 | 143,461 |
| Less than 1 month past due | 25,697 | 25,842 |
| 1 to 3 months past due | 23,579 | 20,735 |
| Over 3 months past due | 22,693 | 24,245 |
| | 71,969 | 70,822 |
| | 194,505 | 214,283 |

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

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

## 23 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| Prepayments | 15,413 | 14,562 | 162 | 181 |
| Rental, utility and other deposits | 8,857 | 7,584 | – | – |
| Printing deposits | 11,339 | 11,545 | 7,911 | 8,117 |
| Advances to employees | 1,580 | 1,891 | – | – |
| Value-added tax recoverable | 20,414 | 16,993 | – | – |
| Other receivables (note (b)) | 6,782 | 12,798 | – | – |
| | 64,385 | 65,373 | 8,073 | 8,298 |

Notes:

(a) At 31 December 2013, the amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is RMB1,640,000 (2012: RMB4,416,000).

(b) At 31 December 2013, other receivables included the amounts of RMBNil (2012: RMB2,895,000) due from Guangzhou Zhongde Consultation Company Limited. The amounts were unsecured, interest free and repayable by instalments.

## 24 DEPOSITS AND CASH

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| Cash at bank held for specific use (note) | 1,530 | 1,341 | – | – |
| Deposits with banks | – | 40,500 | – | – |
| Pledged deposits (note 26) | 2,440 | 3,360 | – | – |
| Cash at banks | 122,804 | 93,423 | 160 | 267 |
| Cash in hand | 1,956 | 1,876 | – | – |
| | 127,200 | 139,159 | 160 | 267 |
| Deposits and cash in the statement of financial position | 128,730 | 140,500 | 160 | 267 |
| Less: Pledged deposits | (2,440) | (3,360) | | |
| Cash and cash equivalents in the consolidated cash flow statement | 126,290 | 137,140 | | |

At 31 December 2013, deposits and cash of the Group included the amounts denominated in RMB of RMB118,262,000 (2012: RMB124,996,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Note: Cash at bank held for specific use represented cash deposited at bank held by a controlled special purpose entity for the purpose of acquiring the Company's shares for awarding to the Group's employees (including Directors) under the Share Award Scheme. Details of the Share Award Scheme are set out in note 28(b).

## 25 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| Trade payables (note 25(a)) | 22,992 | 19,850 | – | – |
| Other payables (note 25(b)) | 69,341 | 71,012 | 776 | 350 |
| Accruals | 6,639 | 7,764 | 79 | 55 |
| Other payables and accruals | 75,980 | 78,776 | 855 | 405 |

The amount of the deferred revenue expected to be recognised as income after one year is RMB12,600,000 (2012: RMB14,400,000). Apart from the above, all of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

## 25 TRADE AND OTHER PAYABLES (continued)

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within 30 days | 5,896 | 9,439 |
| 31 days to 90 days | 10,495 | 9,227 |
| 91 days to 180 days | 6,601 | 1,148 |
| More than 180 days | – | 36 |
| | 22,992 | 19,850 |

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Deposits received in advance (note (a)) | 8,112 | 5,139 |
| Deferred revenue (note (b)) | 14,400 | 16,200 |
| Salaries, wages, bonus and benefits payable | 17,546 | 23,184 |
| Other tax payables | 13,660 | 11,750 |
| Other payables (note (c)) | 15,623 | 14,739 |
| | 69,341 | 71,012 |

Notes:

(a) Deposits received in advance represented advertising deposits received from advertisers and advances from customers.

(b) Deferred revenue represented the amounts received before the related work was performed.

(c) Other payables at 31 December 2013 included (i) advertising and promotion expenses payable of RMB2,703,000 (2012: RMB2,584,000) in respect of brand and publication advertising and (ii) miscellaneous operating costs payables and accruals of RMB8,306,000 (2012: RMB9,495,000).

## 26 BANK LOANS

At 31 December 2013, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| Within 1 year or on demand | 46,791 | 34,014 | 15,821 | 6,494 |
| After 1 year but within 2 years | 2,010 | 1,870 | – | – |
| After 2 years but within 5 years | 6,971 | 6,488 | – | – |
| After 5 years | 500 | 2,992 | – | – |
| | 9,481 | 11,350 | – | – |
| | 56,272 | 45,364 | 15,821 | 6,494 |
| Bank loans | | | | |
| — Unsecured (note (a)) | 38,821 | 23,874 | 15,821 | 6,494 |
| — Secured (notes (a) and (b)) | 17,451 | 21,490 | – | – |
| | 56,272 | 45,364 | 15,821 | 6,494 |

Notes:

(a) Unsecured bank loans of RMB17,000,000 (2012: RMB17,380,000) and secured bank loan of RMB6,100,000 (2012: RMB8,400,000) were guaranteed by Mr. Shao, the controlling shareholder of the Company.

(b) The remaining secured bank loans of RMB11,351,000 (2012: RMB13,090,000) were guaranteed by the Company and Shanghai Gezhi Advertising Co., Ltd., a subsidiary of the Group.

At 31 December 2013, the bank loans of RMB17,451,000 (2012: RMB21,490,000) were secured by the following assets:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Land and buildings held for own use (note 13) | 34,048 | 34,846 |
| Pledged deposits (note 24) | 2,440 | 3,360 |

## 27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| At 1 January | 28,411 | 33,671 |
| Provision for the year: | | |
| — PRC Corporate Income Tax | 18,439 | 21,720 |
| — Withholding Tax | 2,782 | 1,006 |
| Arising from business combinations | – | (132) |
| Tax paid: | | |
| — PRC Corporate Income Tax | (24,017) | (27,848) |
| | 25,615 | 28,417 |
| Exchange differences | (18) | (6) |
| At 31 December | 25,597 | 28,411 |

Taxation payable in the consolidated statement of financial position at 31 December 2013 is expected to be payable within one year.

### (b) Deferred tax assets/(liabilities) recognised

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

| | Future benefit of tax losses RMB'000 | Depreciation allowances in excess of the related depreciation RMB'000 | Other temporary differences RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Deferred tax assets/ (liabilities) arising from:** | | | | |
| At 1 January 2012 | 3,152 | (612) | 2,102 | 4,642 |
| Exchange adjustment | 14 | – | (4) | 10 |
| Charged to profit or loss (note 7(a)) | (2,534) | (450) | (1,774) | (4,758) |
| At 31 December 2012 and 1 January 2013 | 632 | (1,062) | 324 | (106) |
| At 1 January 2013 | 632 | (1,062) | 324 | (106) |
| Exchange adjustment | (28) | 33 | (6) | (1) |
| Credited to profit or loss (note 7(a)) | 398 | 85 | 2,493 | 2,976 |
| At 31 December 2013 | 1,002 | (944) | 2,811 | 2,869 |

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

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

(ii) Reconciliation to the consolidated statement of financial position

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | 5,208 | 1,836 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (2,339) | (1,942) |
| | 2,869 | (106) |

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of accumulative tax losses of RMB5,693,000 at 31 December 2013 (2012: RMB1,396,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the PRC operations expire five years after the relevant accounting year end date.

### (d) Deferred tax liabilities not recognised

At 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB73,246,000 (2012: RMB71,101,000). Deferred tax liabilities of RMB3,662,000 (2012: RMB3,555,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

## 28 SHARE CAPITAL

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

The Company

| | Number of shares | Ordinary shares of HK$0.01 each | |
|---|---|---|---|
| | | HK$'000 | RMB'000 |
| **Authorised:** | | | |
| At 1 January 2012, 31 December 2012, and 31 December 2013 | 8,000,000,000 | 80,000 | 70,485 |
| **Issued and fully paid:** | | | |
| At 1 January 2012, 31 December 2012, and 31 December 2013 | 437,850,000 | 4,379 | 3,848 |

## 28 SHARE CAPITAL (continued)

### (b) Share award scheme

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

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

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

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

### (c) Equity settled share-based transactions

#### (1) Shares awarded under share award scheme

During the year ended 31 December 2013, 3,025,000 shares (2012: 430,000 shares) were awarded to selected employees under the Company's Share Award Scheme. These awarded shares were vested immediately and share-based payments expense of RMB5,734,000 was charged to profit or loss for the year ended 31 December 2013.

#### (2) Shares awarded in respect of Linkchic acquisition

During the year ended 31 December 2013, an aggregate of 1,076,000 shares were awarded to selected employees following the acquisition of 每城美客（北京）網絡科技有限公司 ("Linkchic"), details of which are set out in note 33(a). These awarded shares do not constitute as part of the purchase consideration in respect of the acquisition and they were awarded to the selected employees for their continuing services, which are to be vested subject to vesting condition over service periods of one to three years from the date of award. Accordingly, the awarded shares were accounted for as equity settled share-based transactions in accordance with IFRS2, Share based payment, and share-based payments expense of RMB869,000 was charged to profit or loss for the year ended 31 December 2013.

At 31 December 2013, these awarded shares were unvested. Upon fulfillment of the vesting condition, new shares will be issued to the selected employees for nil consideration.

Detailed terms of the agreement for the acquisition of Linkchic are set out in the Company's announcement dated 23 April 2013.

Other than disclosed above, there were no other outstanding unvested awarded shares at 31 December 2013 (2012: Nil).

## 28 SHARE CAPITAL (continued)

### (c) Equity settled share-based transactions (continued)

(i) Details of the shares awarded under the Share Awarded Scheme and the Linkchic Acquisition (as defined hereinafter) (the "Awarded Shares") during the year are as follows:

| Vesting date | Date of award | Number of Awarded Shares awarded | Average fair value per share | | Cost of related Awarded Shares | |
|---|---|---|---|---|---|---|
| | | | HK$ | RMB | HK$'000 | RMB'000 |
| 16 April 2013 | 25 March 2013 | 2,975,000 | 2.35 | 1.89 | 6,991 | 5,639 |
| 13 June 2013 | 20 May 2013 | 50,000 | 2.35 | 1.89 | 118 | 95 |
| | | 3,025,000 | | | 7,109 | 5,734 |
| 13 May 2014 | 1 April 2013 | 360,000 | 2.40 | 1.93 | 864 | 696 |
| 13 May 2015 | 1 April 2013 | 360,000 | 2.40 | 1.93 | 864 | 696 |
| 13 May 2016 | 1 April 2013 | 356,000 | 2.40 | 1.93 | 854 | 688 |
| | | 1,076,000 | | | 9,691 | 7,814 |

(ii) The remaining vesting periods of the Awarded Shares outstanding as at 31 December 2013 are as follows:

| | At 31 December 2013 | |
|---|---|---|
| | Remaining vesting period | Number of Awarded Shares outstanding |
| Shares awarded in | | |
| — April 2013 | To 13 May 2014 | 360,000 |
| — April 2013 | To 13 May 2015 | 360,000 |
| — April 2013 | To 13 May 2016 | 356,000 |
| | | 1,076,000 |

(iii) In respect of share awards granted to the Directors of the Company, the related share-based payment expense recognised for the year ended 31 December 2013 in accordance with the Group's accounting policy in note 2(o)(iv) was as follows:

| | 2013 RMB'000 |
|---|---|
| WONG Shing Fat | 736 |
| LI Jian | 515 |
| MOK Chun Ho, Neil | 187 |
| CUI Jianfeng | 469 |
| | 1,907 |

## 28 SHARE CAPITAL *(continued)*

### (c) Equity settled share-based transactions *(continued)*

(iv) Movement in the number of shares held under the Share Award Scheme is as follows:

| | 2013 Number of shares held | 2013 Value RMB'000 | 2012 Number of shares held | 2012 Value RMB'000 |
|---|---|---|---|---|
| At 1 January | 5,240,000 | 6,124 | 5,670,000 | 7,177 |
| Dividend reinvested to the scheme | – | (232) | – | (149) |
| Shares vested during the year (note 28(c)(i)) | (3,025,000) | (3,384) | (430,000) | (904) |
| At 31 December | 2,215,000 | 2,508 | 5,240,000 | 6,124 |

## 29 RESERVES AND DIVIDENDS

### (a) Movements in components of equity

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

| | Note | Share capital RMB'000 | Share premium RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2012 | | 3,848 | 144,357 | (8,451) | 12,637 | 152,391 |
| Changes in equity for 2012: | | | | | | |
| Dividends approved in respect of the previous year | 29(b) | – | – | – | (12,493) | (12,493) |
| Profit for the year | | – | – | – | 19,448 | 19,448 |
| Other comprehensive income | | – | – | 1,280 | – | 1,280 |
| Total comprehensive income for the year | | – | – | 1,280 | 19,448 | 20,728 |
| At 31 December 2012 and 1 January 2013 | | 3,848 | 144,357 | (7,171) | 19,592 | 160,626 |
| Changes in equity for 2013: | | | | | | |
| Dividends approved in respect of the previous year | 29(b) | – | – | – | (19,547) | (19,547) |
| Profit for the year | | – | – | – | 20,839 | 20,839 |
| Other comprehensive income | | – | – | (3,598) | – | (3,598) |
| Total comprehensive income for the year | | – | – | (3,598) | 20,839 | 17,241 |
| At 31 December 2013 | | 3,848 | 144,357 | (10,769) | 20,884 | 158,320 |

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB20,839,000 (2012: RMB19,448,000) which has been dealt with in the financial statements of the Company.

## 29 RESERVES AND DIVIDENDS *(continued)*

### (b) Dividends

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Final dividend proposed after the end of the reporting period of HK5.00 cents (equivalent to RMB3.96 cents) (2012: HK5.50 cents (equivalent to RMB4.46 cents)) per ordinary share | 17,319 | 19,547 |

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

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.50 cents (equivalent to RMB4.50 cents) per share (2012: HK3.50 cents (equivalent to RMB2.85 cents)) | 19,168 | 12,493 |

### (c) Nature and purpose of reserves

#### (i) Share premium

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

## 29 RESERVES AND DIVIDENDS *(continued)*

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

#### (ii) PRC statutory reserves

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

— Statutory surplus reserve

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

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

— Statutory general reserve

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

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

#### (iii) Exchange reserve

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

#### (iv) Other reserve

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

## 29 RESERVES AND DIVIDENDS *(continued)*

### (d) Distributable reserves

The aggregate amounts of distributable reserves of the Company as at 31 December 2013 and 2012 were RMB165,241,000 and RMB163,949,000 respectively.

### (e) Capital management

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

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

The Group monitors its capital structure on the basis of a gearing ratio, being the total borrowings divided by the total assets. The gearing ratio as at 31 December 2013 was 9.0% (2012: 7.6%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

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

## 30 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at 31 December 2013 and 2012 not provided for in the consolidated financial statements were as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Authorised but not contracted for | – | 7,500 |
| Contracted for — Acquisition of properties | 53,413 | – |

## 30 COMMITMENTS (continued)

### (b) Operating lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Leases expiring: | | |
| — Within 1 year | 24,347 | 15,343 |
| — After 1 year but within 5 years | 24,086 | 9,227 |
| | 48,433 | 24,570 |

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

### (c) Other commitments

At 31 December 2013, the total future minimum payments under non-cancellable licensing agreements for international cooperation titles are as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Licences expiring: | | |
| — Within 1 year | 23,296 | 11,831 |
| — After 1 year but within 5 years | 83,980 | 37,322 |
| — After 5 years | 39,943 | 22,902 |
| | 147,219 | 72,055 |

## 31 CONTINGENT LIABILITIES

At 31 December 2013, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank loans of up to RMB11,351,000 (2012: RMB13,090,000). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was RMBNil (2012: RMBNil).

At 31 December 2013 and 2012, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

At 31 December 2013 and 2012, the Group had no other material contingent liabilities.

## 32 MATERIAL RELATED PARTY TRANSACTIONS

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

| Name of parties | Relationship with the Group |
|---|---|
| Mr. Shao | Founder/shareholder/Director of the Group |
| Mr. Cheng Chi Kong | Director of the Group |
| Rakuraku Technologies Inc. ("Rakuraku") | An associate of the Group |
| Hangzhou Shili Cultural Media Co., Ltd. ("Hangzhou Shili") | A joint venture of the Group |

In addition to the transactions and balances disclosed in notes 10, 11, 18 and 19, the Group entered into the following related party transactions during the year ended 31 December 2013.

### (a) Related party transactions

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Recurring** | | |
| Agency and commission income (note (i)) | – | 187 |
| Licensing fee expenses (note (ii)) | (632) | (1,070) |
| Rental expenses (note (iii)) | (10,602) | – |
| **Non-recurring** | | |
| Advertising income (note (iv)) | 13,053 | – |
| Development cost paid to an associate (note (v)) | (2,055) | (4,262) |

Notes:

(i) This represented agency and commission income receivable from Hangzhou Shili. It was charged at a pre-determined rate mutually agreed, which is based on the market rates of the related services provided.

(ii) This represented the licensing fee expense payable to Hangzhou Shili for the rights to use the publishing license held by Hangzhou Shili. It is charged at a pre-determined rate mutually agreed, which is based on the market rates of the related licensing services provided.

(iii) This represented rental expenses payable to an entity controlled by a close family member of the Company's director for the lease of office premises in Shanghai. It is charged at a pre-determined rate mutually agreed, which is based on the market rent rates.

(iv) This represented advertising income received from entities controlled by a close family member of the Company's director for certain advertisement placements on the Group's media platforms. It is charged at a pre-determined rate mutually agreed, which based on the market rates of the related services rendered.

(v) This represented development cost paid to Rakuraku for the development of applications for the Group. It is charged at a pre-determined rate mutually agreed, which is based on the market rates of the related services provided.

## 32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (b) Key management personnel remuneration

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits in kind | 16,908 | 12,948 |
| Discretionary bonuses (note) | 2,594 | 5,974 |
| Share-based payment expenses under Share Award Scheme (note 28(b)) | 2,746 | 576 |
| Retirement scheme contributions | 459 | 327 |
| | 22,707 | 19,825 |

Note: Certain discretionary bonuses of RMB2,229,000 remunerated to key management personnel of the Group in 2012 were settled in the form of the Company's shares under the Share Award Scheme during the year ended 31 December 2013.

## 33 BUSINESS COMBINATION

(a) In April 2013, the Group entered into an agreement with an independent third party to acquire 100% equity interests of 每城美客（北京）網絡科技有限公司 ("Linkchic") (referred to as the "Linkchic Acquisition") for a consideration of RMB5,578,120 in cash and by the issue of the Company's shares to certain employees of Linkchic subject to certain vesting conditions as disclosed in the Company's announcement dated 23 April 2013.

For the purpose of financial reporting, the issuance of the Company's shares to the employees of Linkchic does not constitute as part of the consideration in the Linkchic Acquisition under IFRS 3, "*Business combination*". It is considered as compensation to the employees of Linkchic and is accounted for in accordance with IFRS 2, "*Share-based payment*" (note 28(c)).

The principal activity of Linkchic is the provision of shopping guide platform in the PRC.

## 33 BUSINESS COMBINATION (continued)

(a) *(continued)*

The Linkchic Acquisition represented an opportunity to expand the Group's multimedia platform. The fair values of the identifiable assets and liabilities of the Linkchic as at the date of acquisition and the corresponding carrying amounts immediately before the Linkchic Acquisition were as follows:

| | Carrying amount | Fair value recognised on acquisition |
|---|---|---|
| | RMB'000 | RMB'000 |
| Fixed assets | 157 | 157 |
| Intangible assets (note 14) | – | 3,590 |
| Receivables | 2 | 2 |
| Payables | (184) | – |
| Net assets | | 3,749 |
| Goodwill (note 15) | | 1,829 |
| | | 5,578 |
| **Satisfied by:** | | |
| Purchase consideration: | | |
| — Cash paid | | 5,578 |

Since the date of the acquisition to 31 December 2013, Linkchic contributed turnover and loss after tax of RMB2,603,000 and RMB1,884,000 respectively. Had the above acquisition taken place at the beginning of 2013, there would have been no significant impact on the Group's revenue and profit for the year ended 31 December 2013.

### (b) Acquisition-related costs

The Group incurred acquisition-related costs of RMB164,000 (2012: RMB450,000) relating to external legal fees and other professional fees. The legal and professional fees have been included in "administrative and other operating expenses" of the Group's consolidated statement of profit or loss and other comprehensive income.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

### (a) Credit risk

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally allows a credit period of 30 to 180 days to its advertising and circulation customers (with certain limited number of customers granted a credit period of 270 days). Normally, the Group does not obtain collateral from its customers.

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

| | 2013 | 2012 |
|---|---|---|
| From the Group's largest customer | 15% | 13% |
| From the Group's five largest customers | 34% | 40% |

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

Except for the financial guarantees given by the Company as set out in note 31, the Group does not provide any guarantees which would expose the Group or the Company to credit risk.

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

### (b) Liquidity risk

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

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### (b) Liquidity risk *(continued)*

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

The Group

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Repayable within 1 year or on demand RMB'000 | Repayable more than 1 year but less than 2 years RMB'000 | Repayable more than 2 years but less than 5 years RMB'000 | Repayable more than 5 years RMB'000 |
| Trade payables | 22,992 | 22,992 | 22,992 | – | – | – |
| Other payables and accruals | 75,980 | 75,980 | 63,380 | 1,800 | 5,400 | 5,400 |
| Amount due to an associate | 85 | 85 | 85 | – | – | – |
| Bank loans | 56,272 | 56,272 | 46,791 | 2,010 | 6,971 | 500 |
| | 155,329 | 155,329 | 133,248 | 3,810 | 12,371 | 5,900 |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Repayable within 1 year or on demand RMB'000 | Repayable more than 1 year but less than 2 years RMB'000 | Repayable more than 2 years but less than 5 years RMB'000 | Repayable more than 5 years RMB'000 |
| Trade payables | 19,850 | 19,850 | 19,850 | – | – | – |
| Other payables and accruals | 78,776 | 78,776 | 64,376 | 1,800 | 5,400 | 7,200 |
| Amount due to an associate | 1,142 | 1,142 | 1,142 | – | – | – |
| Bank loans | 45,364 | 45,364 | 34,014 | 1,870 | 6,488 | 2,992 |
| | 145,132 | 145,132 | 119,382 | 3,670 | 11,888 | 10,192 |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (b) Liquidity risk (continued)

The Company

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Repayable within 1 year or on demand RMB'000 | Repayable more than 1 year but less than 2 years RMB'000 | Repayable more than 2 years but less than 5 years RMB'000 | Repayable more than 5 years RMB'000 |
| Payables and accruals | 855 | 855 | 855 | – | – | – |
| Bank loans | 15,821 | 15,821 | 15,821 | – | – | – |
| Amounts due to subsidiaries | 4,555 | 4,555 | 4,555 | – | – | – |
| | 21,231 | 21,231 | 21,231 | – | – | – |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Repayable within 1 year or on demand RMB'000 | Repayable more than 1 year but less than 2 years RMB'000 | Repayable more than 2 years but less than 5 years RMB'000 | Repayable more than 5 years RMB'000 |
| Payables and accruals | 405 | 405 | 405 | – | – | – |
| Bank loans | 6,494 | 6,494 | 6,494 | – | – | – |
| Amounts due to subsidiaries | 4,674 | 4,674 | 4,674 | – | – | – |
| | 11,573 | 11,573 | 11,573 | – | – | – |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (c) Interest rate risk

#### (i) Interest rate profile

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

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

**The Group**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Effective interest rate % | RMB'000 | Effective interest rate % | RMB'000 |
| Variable rate borrowings | | | | |
| Bank loans | 5.083 | 56,272 | 4.998 | 45,364 |
| Variable rate deposits | | | | |
| Deposits and cash | 0.56 | 128,730 | 0.69 | 140,500 |

#### (ii) Sensitivity analysis

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's profit or loss for the years ended 31 December 2013 and 2012 and there is no impact on the Group's equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2012.

### (d) Foreign currency risk

#### (i) Transactions risk

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

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

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (d) Foreign currency risk (continued)

#### (ii) Exposure to currency risk

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

**The Group**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Renminbi RMB'000 | Euro EUR'000 | Renminbi RMB'000 | Euro EUR'000 |
| Trade receivables | 3,040 | 20 | 1,775 | – |
| Other payables | (115) | (107) | (317) | – |
| Deposits and cash | 1,946 | – | 10,029 | – |

#### (iii) Sensitivity analysis

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

**The Group**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits RMB'000 | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits RMB'000 |
| Renminbi | 5% | 244 | 5% | 576 |
| | (5)% | (244) | (5)% | (576) |
| Euro | 5% | (37) | 5% | – |
| | (5)% | 37 | (5)% | – |

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

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### (d) Foreign currency risk *(continued)*

#### (iii) Sensitivity analysis *(continued)*

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. The analysis is performed on the same basis for 2012.

### (e) Fair values

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2013 and 2012.

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

## 35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(i) Subsequent to 31 December 2013, the Group settled the remaining consideration (and related legal and professional fees) in respect of the acquisition of properties of HK$67,522,000 (equivalent to RMB53,413,000) by ways of cash of HK$9,652,000 (equivalent to RMB7,635,000) and mortgage loans of HK$57,870,000 (equivalent to RMB45,778,000).

(ii) After the end of the reporting period the Directors proposed a final dividend. Further details are disclosed in note 29(b).

(iii) On 25 March 2014, Modern Mobile Digital Media Company Limited, an indirect wholly-owned subsidiary of the Company, entered into (i) (as vendor) a share transfer agreement with Rakuraku and Mr. Xu Lele ("Mr. Xu"), being the controlling shareholder of Rakuraku and an independent third party who is not a connected person (as defined in the Listing Rules), and (ii) (as selling shareholder) a share repurchase agreement with Rakuraku (as purchaser) and Mr. Xu (as guarantor) for the disposal of the Group's 20% equity interest in Rakuraku for an aggregate consideration of JPY45,000,000.

## 36 COMPARATIVE FIGURES

Certain comparative figures including (i) selling and distribution expenses and (ii) administrative and other operating expenses have been adjusted to conform to current year's presentation.

## 37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of the financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2013 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to IFRS 10, *Consolidated financial statements, IFRS 12, Disclosure of interest in other entities and IAS 27, Separate financial statements "Investment entities"* | 1 January 2014 |
| Amendments to IAS 32, *Financial instruments: Presentation — Offsetting financial assets and financial liabilities* | 1 January 2014 |
| Amendments to IAS 36, *Recoverable amounts disclosure for non-financial assets* | 1 January 2014 |
| Amendments to IAS 39, *Novation of derivatives and continuance of hedge accounting* | 1 January 2014 |

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

## 38 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY

### (a) Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The Company had indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

| Name of subsidiaries | Note | Place and date of incorporation/ establishment and operations | Issued and fully paid up share capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | 2013 | 2012 | |
| **Indirectly held:** | | | | | | |
| City Howwhy Limited | | Hong Kong 15 May 2000 | HK$2 | 100% | 100% | Publication of magazines in Hong Kong |
| Modern Media Company Limited | | Hong Kong 6 May 1998 | HK$1,000,000 | 100% | 100% | Provision of advertising agency services |
| Modern Mobile Digital Media Company Limited | | Hong Kong 4 December 2000 | HK$2 | 100% | 100% | Provision of digital publishing business |
| Modern Media (Zhuhai) Technology Co., Ltd.* (現代傳播（珠海）科技有限公司) | (i) & (ii) | The PRC 13 April 2006 | HK$68,000,000 | 100% | 100% | Research and development, provision of advertising and consultancy service |

## 38 PARTICULARS OF SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITY (continued)

### (a) Subsidiaries (continued)

| Name of subsidiaries | Note | Place and date of incorporation/ establishment and operations | Issued and fully paid up share capital | Attributable equity interest held by the Company 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|---|
| Yazhimei Information Consultation (Shenzhen) Co., Ltd.* (雅致美信息諮詢（深圳）有限公司) | (i) | The PRC 16 August 2007 | HK$2,000,000 | 100% | 100% | Provision of management and consultation services |
| Guangzhou Modern Information Media Co., Ltd.* (廣州現代資訊傳播有限公司) | (ii) | The PRC 3 September 1999 | RMB60,000,000 | 100% | 100% | Publication of magazines in the PRC, provision of advertising agency services, retail sales of imported books and planning of literary arts activities and exhibitions |
| Guangzhou Modern Books Co., Ltd.* (廣州現代圖書有限公司) | (ii) | The PRC 24 November 2004 | RMB5,010,000 | 100% | 100% | Publication of magazines in the PRC, design and selling of advertising spaces |
| Shanghai Senyin Information Technology Co., Ltd.* (上海森音信息技術有限公司) | (ii) | The PRC 19 October 2005 | RMB1,000,000 | 100% | 100% | Provision of website development business |
| Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited* (廣州現代移動數碼傳播有限公司) | (ii) | The PRC 23 May 1996 | RMB10,000,000 | 100% | 100% | Provision of digital publishing business |
| Shanghai Yizhi Advertising Co., Ltd.* (上海意致廣告有限公司) | (ii) | The PRC 22 February 2012 | RMB500,000 | 100% | 100% | Provision of advertising agency services |
| Beijing Yazhimei Advertising Co., Ltd.* (北京雅致美廣告有限公司) | (ii) | The PRC 14 January 2013 | RMB500,000 | 100% | – | Provision of advertising agency services |
| Linkchic (Beijing) Network Technology Co., Ltd.* (每城美客（北京）網絡科技有限公司) | (ii) | The PRC 21 July 2010 | RMB1,600,000 | 100% | – | Provision of website development business |

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

Notes:

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

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

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

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

### (a) Subsidiaries *(continued)*

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

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

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

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

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

### (b) Controlled special purpose entity

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

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

The Company controls a special purpose entity, Modern Media Employee Share Trust, which is set up solely for the purpose of purchasing, administrating and holding the Company's shares for the Share Award Scheme (note 28(b)). As the Company has the power to direct the relevant activities of the Modern Media Employee Share Trust and it has the ability to use its power over the Modern Media Employee Share Trust to affect its exposure to returns, the assets and liabilities of the Modern Media Employee Share Trust are included in the Group's consolidated statement of financial position and the Company's shares held by the Modern Media Employee Share Trust are presented as a deduction in equity as "Shares held for Share Award Scheme".

As at 31 December 2013, the Company had contributed RMB8,805,000 (2012: RMB8,805,000) in the Modern Media Employee Share Trust for shares not yet vested and the amount was recorded as "Contributions to Modern Media Employee Share Trust" in the Company's statement of financial position.

# *Five Year Financial Summary*

## RESULTS

| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|---|---|
| Turnover | 631,180 | 655,313 | 586,186 | 456,255 | 333,156 |
| Profit before taxation | 51,432 | 92,752 | 85,069 | 71,351 | 38,339 |
| Income tax | (18,245) | (27,484) | (24,791) | (18,599) | (7,153) |
| Profit for the year | 33,187 | 65,268 | 60,278 | 52,752 | 31,186 |

## ASSETS AND LIABILITIES

| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|---|---|
| Total assets | 621,849 | 595,751 | 552,192 | 415,248 | 327,782 |
| Total liabilities | (183,265) | (175,485) | (187,717) | (148,565) | (128,485) |
| Total equity | 438,584 | 420,266 | 364,475 | 266,683 | 199,297 |

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

現代傳播
Modern Media

## 現代傳播集團
## MODERN MEDIA GROUP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