MODERN MEDIA HOLDINGS LIMITED ANNUAL REPORT 2017

現代傳播控股有限公司 2017 年 年報

NOWNESS

Stock Code:72

CONTENTS

MODERN NOWNESS

We regard magazines as a media business to express cultural aspirations and to facilitate international cultural exchanges, integration, connection, and remodel. Our business model constantly upgrades and transforms alongside with the development trend of the society. From printed magazines to digital magazines and to video magazines, it now extends to space magazines.

現代不停

我們把雜誌看成文化志向的表達與國際文化的交流，接軌、連接和重塑的傳播企業。商業模式隨著社會發展趨勢不斷升級更新。從平面雜誌到數字雜誌再到視頻雜誌，現在延伸發展到空間雜誌。

Core Competitiveness of Modern Media

For 25 years, Modern Media has always been striving to create some unique magazines which are more enlightening, more innovative and more artistic. Not only do we hope to broaden our readers'

horizon and to get ahead of the trend, we also hope to help them to enhance their lifestyle and aesthetic appreciation. As a reader said, "If there was no Modern Media in the Chinese magazine history, it would be not only incomplete, but also dull. Meanwhile, Modern Media has introduced many talents to the Chinese cultural, arts, and fashion society."
The most successful magazine must build and maintain a solid brand.

現代傳播核心競爭力

25年來，現代傳播一直都希望創辦一些與眾不同的

雜誌，更具思想性、創新性與藝術性。

除提升讀者的思想境界和把握潮流脈搏之外，

更希望幫助他們提升生活品味以及審美情趣。

正如有讀者說：「中國雜誌史上如果沒有了現代傳播，

不僅是不完整，而且會沉悶。

同時，現代傳播為中國文化藝術與

時尚界輸送了很多人才。」

最成功的雜誌必須建立並擁有強有力的品牌。

P A P E R Z I N E

Never-ending Modernizing, New Cultural Industry Movements in Progress

20 years after the first issue, the 1000th issue of "Modern Weekly" had been published.
Just like motor vehicles and clothing, magazines have changed with the times.
We must adapt to the changes and maintain our

sensitivity. The times change, the market changes and the target audience also changes. We must redefine "Modern Weekly" in order to be in line with the times and adapt to the pace of the mobile internet era.
No matter how the fate of magazines becomes, there is still audience and the core of operating a magazine lies in the audience.
Our new audience group is positioned as the new elite in China, who have strong spending power in China.

The newspaper style magazine we have created is unique in China, providing people with insights, perspective and aesthetic appreciation that most magazines cannot offer.
The mobile internet also provides extra service to magazine advertisers, bringing additional revenue to the magazine.

不停現代
新文化產業運動進行時

《週末畫報》已經第20年了，正式迎來第1000期。

正如汽車和時裝，雜誌也隨著時代而變化。

我們必須隨機應變，保持一種敏感性。

時代改變，市場變化，目標受眾發生變化。

我們必須重新定義《週末畫報》，才能做到與時俱進，

1000+

適應移動互聯網時代的步伐。

不管雜誌的命運如何，受眾仍然存在，雜誌經營的核心在於受眾。我們新的受眾群體定位為中國新精英、中國消費力最強的人群。

我們打造的是中國獨一無二的報紙式雜誌，

為他們提供其他雜誌沒有的視野、角度與審美。

移動互聯網也向雜誌廣告主提供了額外的服務，

帶給了雜誌額外的收入。

InStyle Modern Lady

InStyle, the global well-known celebrity fashion magazine, is well-versed in the secrets of fashion, beauty and lifestyles and is sought-after by readers worldwide. Since it was found in the United States by Time Warner Group in 1994,

its global influence has reached five continents (North America, Europe, Asia, South America and Oceania) and 13 international editions have been published in 16 countries. In May 2017, Time Warner and Modern Media joined hands to launch the Chinese edition of "InStyle Modern Lady " in China. "InStyle Modern Lady" will carry forward its leading position among global celebrity and fashion trends, breaking the traditional frame for media and presenting Chinese women with a media in an innovative Matrix multi-dimensional form. "InStyle Modern Lady" will lead the Chinese media into a brand new era of matrix multi-dimensional media.

InStyle優家畫報

InStyle，作為全球最知名的明星時尚潮流雜誌，

深諳時尚、美容和生活圈的奧秘，

受到各國讀者追捧。自1994年在美國由時代華納

集團創立至今，其全球影響力輻射到五大洲

（北美洲、歐洲、亞洲、南美洲、大洋洲），

並已在十六個國家發行了13個國際版本。

InStyle

优家画报

2017年5月，時代華納與現代傳播攜手在中國

推出中國版本《InStyle優家畫報》。

《InStyle優家畫報》將延續InStyle全球明星潮流

icon的領先地位，打破傳統媒體框架，

以創新的矩陣式多維度立體傳媒形態呈現給

中國女性。《InStyle優家畫報》將引領中國媒體

走入一個全新的立體傳媒時代。

MOBILEZINE+VIDEOZINE

The impact of mobile Internet on traditional media is unprecedented, causing a dilemma for all traditional media enterprises in a devastating trend. Even high-end media enterprises like ours, which are not positioned to target the general public, face three major crises: first, product substitution; second, the material change in profit pools; and third, the transformation of business models.

移動互聯網對傳統媒體的衝擊是前所未有的，
並且以摧枯拉朽的態勢
令所有傳統媒體企業陷入困境，
連我們這樣不是以大眾為定位的高端的傳播企業
也面臨三大危機：一是產品替代，
二是利潤池的重大轉變，三是商業模式的轉變。

New Journey of Modern Media

The reason we acquired Nowness: Internationalization is the way forward to Modern Media.
The Chinese should build brands that represent authority, creativity and appreciation. Nowness, as the rule maker of creative short films, is very much in line with our idea. Continuously applying new ideas, new technologies and new methods to explore and practice is the pleasure of our work as well as our development path.

NOWNESS

現代傳播的新征途

我們收購Nowness的原因：現代傳播想要朝著國際化的方向發展，中國人應該要打造出有權威、有創意、有品味的品牌。Nowness作為創意短片的規則制定者，跟我們的理念是非常一致的。不斷運用新的理念、新的技術、新的方法，去探索與實踐，既是我們的工作的樂趣，也是發展途徑。

SPACEZINE

Foreword

Modern Space is a space established in Bridge Eight under the Modern Media Group. Bridge Eight was originally a factory compound in the Former French Concession. After Liberation it was used as an industrial workshop for Shanghai Automotive Brake Systems, and carries many traces of industrial, urban development during times of transition. After the economic transformation of 2003, it became one of the earliest cultural and creative parks in Shanghai.

Since the founding of Modern Media Group 25 years ago, it has continually devoted itself to constant contemplation and hard work toward culture, art, lifestyle, and social responsibility. In 2016, we invited the Japanese artist Kohei Nawa to redesign Modern Space for us. The artist retained the seasoned warehouse design style and used a concept of “Into the media” to create a media space that combines a venue for offices with open spaces for the public.

In the words of Kohei Nawa, “As a leader in the industry, Modern Media Group continually engages in the dissemination of culture and art to promote new technologies and new ideas. Behind all of this there are countless creative approaches organized and spread through information. Here, the expressive power of modern an expansive media platform space: Modern Space.”

On April 21, 2017, Modern Space’s book space Modern Eye, Modern Art Base gallery, and photography studio Modern Studio had their grand opening. On November 8, 2017, the mineral pigment painting and printmaking Modern Workshop, as well as the multipurpose space Modern Art Academy, and Modern Kitchen were opened.

The innovative Modern Space office venue is a cultural space open to the public, but also a place to practice and consider environmental psychology and spatial planning, infinite possibilities within limited spaces, and a combination of artistic intervention and social responsibility.

Welcome to Modern Space, where you can discover yourself in an artistic atmosphere.

前言

Modern Space現代空間是現代傳播集團設立於上海八號橋的線下空間。八號橋原址是法租界的一片舊廠房，解放後用作上海汽車制動器的工業車間，承載著時代變遷下城市發展的諸多痕跡。2003年經改造後成為上海最早的文化創意園區之一。

現代傳播集團創立25年來，一直致力於對文化、藝術、生活方式和社會責任的不斷思考與耕耘。2016年，我們邀請到日本藝術家名和晃平(Kohei Nawa)為我們重新設計Modern Space現代空間。藝術家保留了舊時倉庫的設計風格，用「走進媒體(Into the media)」的理念打造結合辦公場所與公眾開放為一體的媒體空間。

「現代傳播集團作為行業的佼佼者，不斷以新技術、新思維從事著文化及藝術推廣的傳播。在這背後是無數個信息漩渦的創作、整理和發散。在此，我以現代視覺藝術的表現力為核心，創作了這個龐大的媒體平台空間 — Modern Space。」名和晃平如此解釋道。

2017年4月21日，Modern Space現代空間內的藝影書閣Modern Eye、現代藝術基地Modern Art Base和攝影工作室Modern Studio隆重揭幕，並於2017年11月8日啓用岩彩畫工作坊Modern Workshop、多功能小劇場Modern Art Academy、現代藝術廚房Modern Art Kitchen。

Modern Space現代空間是創新的辦公場所，是對公眾開放的文化空間，更是關於環境心理與空間規劃、有限場所與無限可能、藝術滲透與社會責任的思考和實踐。

歡迎您走進Modern Space現代空間，在藝術的氛圍中發現自己。

藝影書閣

專精於攝影藝術書籍，擁有逾3,000冊藝術書籍。
書閣內擺放日本藝術家，名和晃平最知名的
裝置作品「棱鏡鹿 Pixcell Deer」。書閣體現著與
棱鏡鹿同樣的藝術理念 — 瑪格南偉大的攝影大師
布列松曾經講過：「攝影可以一瞬間凝固永恒。」
由攝影大師們用鏡頭凝固下來的永恒瞬間，
提供給我們以別樣的視角，重新審視我們所身處的
屋舍、都會、世界、宇宙。
並賦予藝術盛會一個近乎完美的場所，
以空間包裹，以書牆烘托。

MODERN EYE

Modern Eye specializes in photography and art books, with a collection of over 3,000 art books. In the book space is the installation art work by Japanese artist Kohei Nawa, Pixcell Deer. The book space reflects the same concept as the Pixcell Deer — Magnum Photos' esteemed master photographer Henri Cartier-Bresson's statement that "photography captures the moment and its eternity." In the eternal moments that the photographic masters' focus their lenses on, they offer another perspective through which we see the houses, cities, the Earth, and the universe that we inhabit. It provides a perfect place for art gatherings — enveloped in space and set off from the walls of bookshelves.

Modern Eye
PHOTOGRAPHY & ART BOOKSPACE
艺影书阁

現代藝術基地

通過獨立的學術研究和審美意識，
策劃並推出優秀藝術家的新作展覽，促進與國際一流
畫廊和非營利機構的巡展交流。

Modern Art Base

Modern Art Base is a two-storey space
with an independent program of rotating exhibitions.
Through independent academic research
and aesthetic awareness, it curates and promotes new
exhibitions of outstanding artists
and supports touring exhibitions
with world-class galleries and non-profit institutions.

Modern Art Base

Modern Art Academy

Modern Art Academy's multipurpose auditorium uses a theatrical lighting arrangement to design a cinematic art space. From the beginning of the design, it has served to function as a space for various types of events, including film screenings, lectures, public readings, and conferences. It can also be used as an extension of the gallery to expand the exhibition space.

多功能小劇場

採用銀幕式的燈光處理設計出影廳般的藝術空間。在設計之初，便賦予其多樣性的功能，可用於藝術電影放映、講座、讀書沙龍、發佈會等多種活動，亦可作為畫廊的延伸拓寬展覽空間。

Modern Workshop

Mineral pigment painting originates from the Mogao Buddhist grottoes and murals in Dunhuang, the Xinjiang Kizil Buddhist rock-cut caves, and the Buddhas of Bamiyan in Afghanistan. The painting method relies on rice paper, silk and cotton, board, wood, walls and other surfaces, and then utilizes multicolored mineral pigments, gold and silver metals, and edible gelatin or animal glues to bind the materials and set the image onto the picture plane.
In order to pass on one of the magnificent Eastern cultural traditions, and sow the seeds for public education, Modern Media Group has built the Modern Workshop for mineral pigment painting and printmaking. The workshop features

Modern Workshop

a color screen-printing machine, film machine, plate setter, and over 500 distinct types of mineral pigments, mineral stones, paper stocks, and all the necessary equipment and materials for producing mineral pigment painting works.
In addition, we invite mineral pigment painting artists to regularly lead creative workshops, as well as explain and share their works.
The workshop provides a platform for studying and creating, analyzing, researching, appreciating, and personally experiencing individualized forms of expression in yancai. As an artistic medium, it “uses our own bodies and minds to observe nature, and by observing things reflect on ourselves.”

岩彩畫工作坊

岩彩畫源於敦煌莫高窟佛教石窟岩彩壁畫、
新疆龜茲佛教石窟岩彩壁畫和阿富汗巴米揚佛教石窟岩彩壁畫。
其作畫方法是以宣紙、絹及棉、板、木、壁等為依托，
將五彩的岩石粉末以及金銀等金屬色媒材，
以食用明膠或動物膠為主要粘合劑，定著到畫面上。
現代傳播集團為了傳承這一屬東方的瑰麗文化，
同時為公共教育事業播下一粒種子，建造了「岩彩畫工作坊 Modern Workshop」，工作坊配備了完整的絲網印刷機、菲林機、定版機、逾500種岩彩畫顏料、礦物原石、畫紙等岩彩畫製作所需設備及材料。
並邀請岩彩畫藝術家常駐於此進行創作、講解及分享。
工作坊為人們提供一個學習與創作的平台，解析、研讀、欣賞、
體驗個性化的岩彩表意，以藝術創作為媒介，
「以己及物，以物觀己」。

Modern Studio

Modern Studio is one of the few studios that is self-owned by a media group.
Here, we are equipped with professional-level photographic equipment, make-up rooms, retouching studio, and spaces for props and storage, with two independent studios that can be used at the same time.

Modern Studio

攝影工作室

Modern Studio是為數不多的媒體自有的攝影棚。
在這裏，我們配備專業級的攝影設備、專業的化妝間、修圖室、器材室、道具間和儲物空間，兩個獨立的攝影棚可同時進行拍攝工作。

現代藝術廚房

攜手米其林餐廳「大董」，現代藝術廚房讓東與西相遇。
相鄰藝影書閣的現代藝術廚房 Modern Art Kitchen 的設計將延續 Modern Space 現代空間「Into the media」的設計理念，餐廳可以是媒體空間，食物更是每日可尋的藝術。

Modern Art Kitchen

In collaboration with Michelin restaurant Da Dong, Modern Art Kitchen allows East to meet West. The design of Modern Art Kitchen, which is connected to Modern Space, also draws on the “Into the media” design concept. The restaurant can be a media space, and food an art form that can be found every day.

Modern Art KITCHEN

Modern Media Platforms

Modern Media Group is a leading, high-end media company in China. It is a comprehensive, transmedia platform both internationally and within the Greater China region.
It contains platforms for digital media, print publishing, and international exhibitions. It has now been 25 years since its founding in 1993. The group has been publically listed on the main board of the Stock Exchange of Hong Kong Limited (72) since September 2009, and is one of China's earliest high-end media corporations.
The company includes 12 publications and digital media platforms that focus on culture, commerce, art, fashion, and lifestyle from a range of perspectives, including Life, Modern Weekly, City Magazine, InStyle Modern Lady, Numéro,

現代傳播媒體平台

現代傳播是一間中國領先的高端傳播公司，
是一間跨媒體的綜合性國際地區與大中華地區之間的文化傳播平台，涵蓋數字媒體平台、平面出版平台以及國際展會平台。自1993年創辦以來，至今已逾二十五年。集團於2009年9月在香港主板上市(72)，是中國大陸最早的高端傳播集團之一。
集團旗下擁有聚焦文化、商業、藝術、時尚、生活方式多角度的媒體包括《生活》、《週末畫報》、《號外》、《InStyle優家畫報》、《Numéro大都市》、《IDEAT理想家》、《LOHAS樂活》、《The Good Life優仕生活》、《商業週刊／中文版》、《彭博商業週刊／繁體中文版》、

Ideat, Lohas, The Good Life, Bloomberg Businessweek (Simplified Chinese), Bloomberg Businessweek (Traditional Chinese), LEAP, and The Art Newspaper Chinese.
In addition, the company includes the global culture and creative video platform NOWNESS, as well as the offline branded Modern Space.
We focus on the highest quality content, influencing elite groups of readers through print media, online media, and offline, on-the-ground, 360-degree media coverage.
Our social responsibility is to strive for the internationalized, fashionable, and high-taste. Our goals are to spread the truth, spread trends, and spread aesthetic education.
Modern Media — Global Vision, Modern China.

《LEAP藝術界》、《藝術新聞中文版》共十二本期刊及其數字化媒體平台、全球文化創意視頻平台NOWNESS以及線下品牌Modern Space現代空間。
我們精耕最優質的內容，影響精英讀者群體，
從平媒、線上傳播及線下落地360˚全方位覆蓋。
國際化、時尚化、高品位、社會責任是我們的宗旨；
傳播真理、傳播潮流、傳播美育是我們的目標。
與現代傳播攜手，以環球視野觀察現代中國，
以中國原創影響國際潮流。

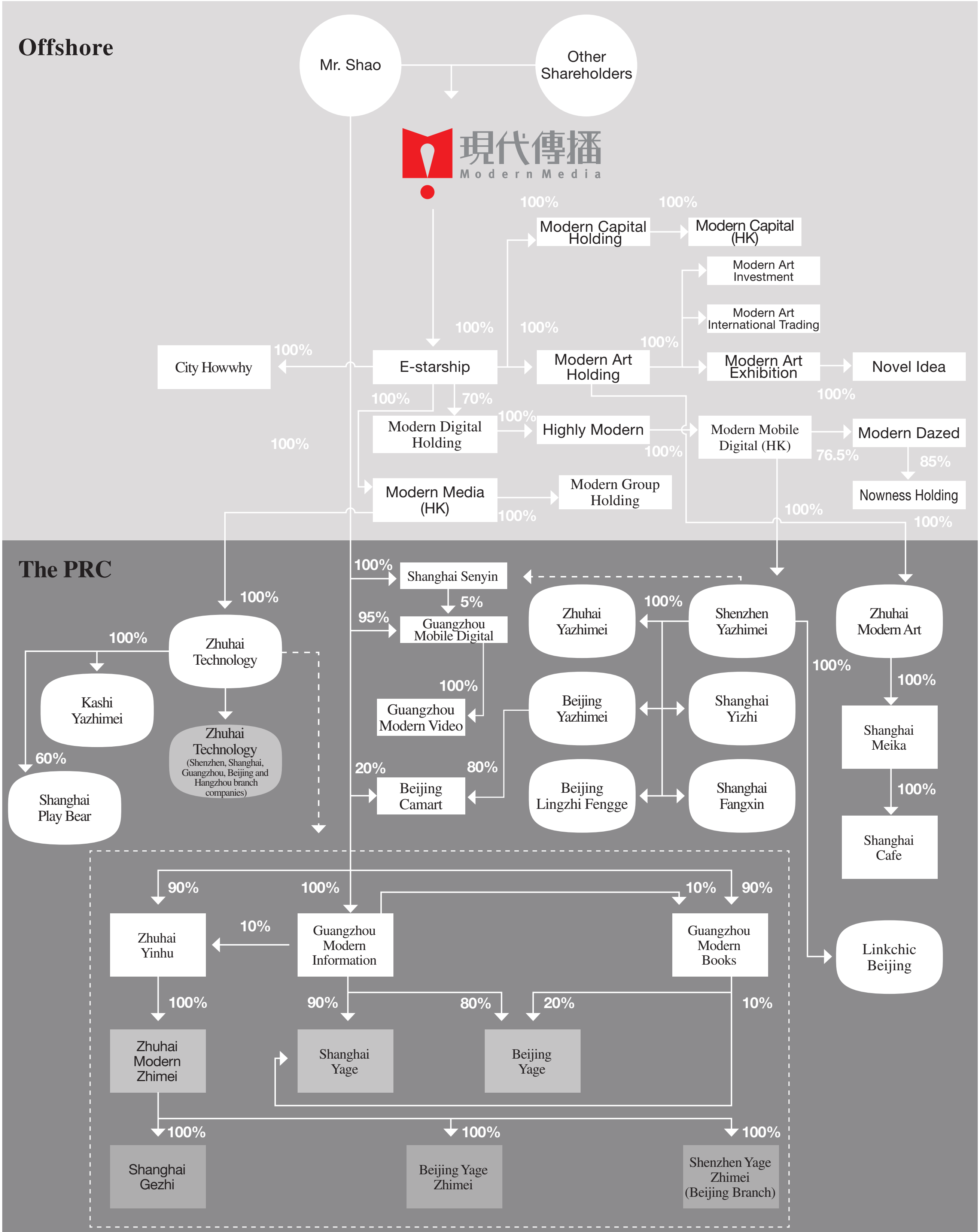
Doing Business from the Artistic Perspective

The vision of Modern Media is to
become the world's foremost high-quality publishing
media group, leading the development of
China's high-quality publishing
and cross-media industry. We do more than
just providing information, but more importantly,
raising taste and creating dreams.
We are also working on the cross-media art
and business practices.
What we do is “Doing business
from the artistic perspective”.

在藝言商

現代傳播的願景是成為世界上最重要的高品質出版媒體集團，引領中國高品質出版跨媒體行業的發展。我們不只是提供資訊，更重要的是提升品味與創造夢想。我們也是在做跨媒介藝術與商業的實踐。我們做的是「在藝言商」

Corporate Structure



"——" 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 (resigned with effect from 11 October 2017)
Mr. Mok Chun Ho, Neil
Ms. Yang Ying
Mr. Li Jian
Mr. Deroche Alain

Non-executive Director

Dr. Cheng Chi Kong
(Vice Chairman) (resigned as non-executive Director and appointed as honorary vice-chairman with effect from 26 August 2017)

Independent Non-executive Directors

Mr. Jiang Nanchun
Mr. Wang Shi
Mr. Au-Yeung Kwong Wah
Dr. Gao Hao

AUDIT COMMITTEE

Mr. Au-Yeung Kwong Wah *(Chairman)*,
Mr. Jiang Nanchun, Mr. Wang Shi, Dr. Gao Hao

REMUNERATION COMMITTEE

Mr. Au-Yeung Kwong Wah *(Chairman)*
Mr. Wong Shing Fat (resigned with effect from 11 October 2017)
Mr. Jiang Nanchun,
Dr. Gao Hao (appointed with effect from 11 October 2017)

NOMINATION COMMITTEE

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. Shao Zhong *(Chairman)*
Mr. Wong Shing Fat (resigned with effect from 11 October 2017)
Mr. Mok Chun Ho, Neil, Dr. Gao Hao
Ms. Zhong Yuan Hong

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Shao Zhong
Mr. Mok Chun Ho, Neil

Board of Directors
董事會

創辦人，主席兼
行政總裁
邵忠
Shao Zhong
Founder, Chairman &
Chief Executive Officer

執行董事，營運總裁
德浩仕
Alain
Deroche
Executive Director &
Chief Operating Officer

執行董事暨上海地區總經理，
《InStyle優家畫報》及InStyle iLady出版人，《IDEAT理想家》出版人
楊瑩
Amy Yang
Executive Director, General Manager of Shanghai Office, Publisher of
InStyle Modern Lady & InStyle iLady, Publisher of IDEAT CHINA

財務總裁，
公司秘書兼執行董事
莫峻皓
Mok Chun Ho, Neil
CFO, Company Secretary & Executive Director

執行董事／北京地區總經理，
《商業週刊／中文版》出版人
李劍
Patrick Li
Executive Director/General Manager of Beijing Office, Publisher of Bloomberg Businessweek China

Corporate Information (continued)

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Wanchai, 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 A2, 4/F, Exhibition Centre
No. 1 Software Park Road, Zhuhai City
Guangdong Province, the PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7/F, Global Trade Square
No. 21 Wong Chuk Hang Road
Aberdeen
Hong Kong

PRINCIPAL BANKERS IN HONG KONG

Bank of China (HK) Limited
Wing Lung Bank Limited

PRINCIPAL BANKERS IN THE PRC

China Merchants Bank
(Shanghai Branch, Xujiahui Sub-branch)
Industrial Bank Co., Limited
(Guangzhou Branch, Haizhu Sub-branch)
China MinSheng Banking Corporation
(Beijing Guangan Men Sub-branch)

REGISTERED OFFICE

P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Service (Cayman Islands) Limited
P.O. Box 10008, Willow House
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Grand Cayman KY1-1001
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
22nd Floor, Hopewell Centre
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Hong Kong

STOCK CODE

Stock code: 72

WEBSITE

www.modernmedia.com.cn

Chairman's Statement
主席報告

創辦人，主席兼
行政總裁
邵忠

Shao Zhong
Founder, Chairman &
Chief Executive Officer

首席策略顧問兼榮譽副主席

鄭志剛博士

Dr. Cheng Chi Kong

Chief Strategic Advisor & Honorary Vice-chairman

Chairman's Statement

On behalf of the Board of Directors ("the Board") of Modern Media Holdings Limited (the "Modern Media" or the "Company"), it is my pleasure to announce the results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

Looking back to 2017, although the growth of the PRC's Gross Domestic Products ("GDP") had achieved 6.9% which was slightly higher than originally forecasted, Chinese economy still faced challenges on multiple aspects, the brand advertisers still remained cautious and conservative, and continued to tighten their advertising spending. Meanwhile, the increasing presence of technology and digitalization and shift of readers' preference for digital media over print media had caused significant downturn in traditional print media industry, which severely impacted our business. In the reporting period, the Group's turnover recorded a decline of approximately 16.1% to RMB435.6 million as compared with that of 2016, mainly due to the sharp decline in print advertising revenue due to the decline of the print media industry. With continuous implementation of cost control measures and rising advertising revenue derived from our digital business, the Group managed to make a profit of RMB10.2 million in the second half of 2017 which helped to narrow our net loss for the whole year to RMB39.8 million.

The Group has proactively promoted the transformation of our business during the past year, and has endeavored in and developed new businesses such as the development of "Nowness" video platform and the launch of the cultural and creative space in Shanghai etc., which takes time before gain can be materialised. Management believes that, with the development of our new business areas and by optimizing the current business portfolio, there will likely be overall improvements in the financial results in 2018.

The Group has two business segments, namely "print media and art" and "digital media and television". Although the revenue derived from our print media business decreased along with the overall decline in print media market, our Group still made an effort to achieve a fair performance in 2017. In May 2017, we rebranded "Modern Lady Weekly" into "INSTYLE 優家畫報" by cooperating with the renowned international female magazine "InStyle" published by Time Inc.. The magazine had experienced upgrades in terms of contents, design and layout etc., which makes it more attractive to brand advertisers; as a result, "INSTYLE 優家畫報" recorded an increase in advertising revenue of 16.5% from May to December after rebranding as compared to the same period last year. As for art business, it had contributed revenue of RMB15.1 million during the reporting period. The Group plans to renovate more office spaces in the coming year to refine our Modern Art Base which contains art galleries, art kitchen, bookshop and art studio so as to promote our art business. It is our management's belief that the art business will bring in additional revenue stream in the coming future.

By comparing to the stagnant advertising environment in print media sector, the overall market sentiment of the digital sector was comparatively optimistic. The total revenue contributed by the Group's digital media recorded an increase by 28.3% in 2017 when compared with that of last year, which outperformed the market growth. As at the end of 2017, the total increase in number of downloads of "iWeekly", "INSTYLE iLady" and "Bloomberg Businessweek 商業周刊中文版" on both smartphone and tablet PC was satisfactory when compared with the year ended 2016; moreover, the advertising revenue of "iWeekly", "INSTYLE iLady", which was upgraded from our "iLady 365" App, and "Bloomberg Businessweek 商業周刊中文版" also had a significant increment when compared with that of last year. The subscription income of "Bloomberg Businessweek 商業周刊中文版" had surged to RMB5.0 million in 2017 from RMB1.6 million last year. Management expects the subscribed reader base would be continuously enlarged in the coming future, which eventually led to more business opportunities. With the acquisition of "Nowness" brand and media in 2017, the Group had hired a team of professionals to operate Nowness video platform in China since the second half of 2017. The advertising revenue derived from "Nowness" had reached RMB10.9 million in 2017 and it is expected the "Nowness" will contribute additional income in the coming year with the launch of "Nowness" app. Management is confident that the continuous growth in downloads of our App products will make us a leading digital platform, and will further generate considerable revenues in future.

Looking forward, The Group will continue to extend its business strategy towards the “4-M” direction, i.e. “Modern Publishing”, “Modern Digital”, “Modern Expo” and “Modern Space”. “Modern Publishing” includes our printed magazines portfolio, which is still the leading printed media in the PRC market for brand advertisers. The Group expects that the reduction in advertisements for printed magazines by luxury brands has gradually bottomed out, and the advertising volume of the Group’s printed magazines began to rebound in the first quarter of 2018. “Modern Digital” continues to be the driving force of our business growth. The Group is going to launch the “Nowness” App in April 2018, the management expects that there will be huge traffic to the App and will inevitably stimulate a significant growth in brand advertising. Moreover, the Group will utilize the brand of “Nowness” to develop a series of extended businesses in order to explore other income sources. “Modern Expo” will become the new driving force of the Group by utilizing our existing ample resources in marketing experts and connection with models, celebrities and artists. With the successful case of “Photo Shanghai” which ran by Modern Media and an international leading art exhibition organizer, the Group will establish a joint venture with VNU Exhibitions Asia in 2018, and will plan and organize a series of profitable trade fairs with different themes such as art, LOHAS, creativity, culture, business and design. “Modern Space” is a real estate project involving cultural and creative spaces actively deployed by the Group. Our first project is located in Shanghai and divided into three phases of development, which aims to build a one-stop fashionable landmark featuring photo exhibition, catering, retail, courses and more. In the future, this type of cultural and creative spaces will be extended to different cities in the PRC and the next stop will be first-tier cities such as Beijing and Guangzhou.

Looking forward, management believes that the further development of the “4-M” direction together with stringent cost control measures would help the Group materialize a turnaround from loss in the foreseeable future.

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

Shao Zhong
Chairman

23 March 2018

Management Discussion and Analysis

RESULT SUMMARY

During 2017, although the growth of the PRC's GDP had achieved 6.9% which was slightly higher than originally forecasted, Chinese economy still faced challenges on multiple aspects: declining external demand, overcapacity in individual sectors, and rapidly growing debt level. Along with the ongoing structural transition in the PRC, there were growing doubts on its financial stability and increased uncertainties of economic risks. Despite the luxury goods consumption has slightly rebounded in 2017, the brand advertisers still remained cautious and conservative, and continued to tighten their advertising spending. Meanwhile, the increasing presence of technology and digitalization and shift of readers' preference for digital media over print media had caused significant downturn in traditional print media industry, which severely impacted our business; management is actively seeking ways to develop digital media business and explore other business opportunities in order to maintain our market competitiveness.

Under the tough operating environment as mentioned above, the Group had recorded a decrease in revenue of approximately 16.1% to RMB435.6 million in 2017 as compared with 2016 (2016: RMB518.9 million), the decline was mainly due to the substantial decrease in advertising revenue contributed by our print media as a result of the downturn experienced by the print industry. The Group reported a net loss of approximately RMB39.8 million in current year as compared to a net profit of RMB3.0 million in 2016. Management had continuously implemented a series of cost control measures throughout 2017, and the advertising revenue of our digital media business started to pick up in the second half of the year, the Group managed to make a profit of RMB10.2 million in the latter half of 2017 as compared to the substantial loss in the first half of the year. In addition, the Group has proactively promoted the transformation of our business during the past year, and has endeavoured in and developed new businesses such as the development of "Nowness" video platform and the launch of the cultural and creative space in Shanghai, etc., which takes time before gain can be materialised. Management believes that, with the development of our new business areas and by optimizing the current business portfolio, there will likely be overall improvements in the financial results in 2018.

In May 2017, one of our flagship printed publications, "Modern Lady Weekly", had been rebranded into "INSTYLE 優家畫報" by cooperating with the renowned international female magazine "InStyle" published by Time Inc.. "INSTYLE 優家畫報" has since been upgraded by incorporating the proprietary features of the InStyle brand and editorial materials published in the InStyle magazine; moreover, a digital mobile application ("App") entitled "INSTYLE iLady" was launched simultaneously along with the rebranding of the magazine. Management believes that the rebranding will have an upgrade of the publication contents and bring in additional advertising revenue stream, which ultimately benefits our shareholders. For further details of the rebranding, please refer to the Company's announcement dated 5 May 2017.

Furthermore, an entity formed by the Group and two independent third parties entered into as asset acquisition agreement with a wholly-owned subsidiary of a leading international fashion house in the second quarter of 2017, so as to create and distribute media content on various video and social media channels under the brand name of "Nowness". "Nowness" is a video channel which focuses on global art and culture segments, the Group plans to use "Nowness" channel to expand its media distribution channels in order to reach a larger number of user on global basis. For further details of the acquisition, please refer to the Company's announcement dated 2 June 2017.

Since the second half of 2015, the Group had strategically restructured its business into two business segments, namely "print media and art" and "digital media and television". In 2017, print media remained as the major income contributor of advertising revenue while digital media was outperformed in terms of revenue generation. As at 31 December 2017, the segment results are as follows:

	Print Media & Art RMB'000	Digital Media & Television RMB'000	Total RMB'000
2017			
Reported segment revenue	**316,503**	**122,080**	**438,583**
Reportable segment profit/(loss)	**(37,077)**	**3,176**	**(33,901)**
Segment EBITDA	**(22,372)**	**10,802**	**(11,570)**
2016			
Reported segment revenue	432,993	95,168	528,161
Reportable segment profit	6,355	2,611	8,966
Segment EBITDA	24,571	11,596	36,167

On the segment results, the segment revenue for the print media in 2017 suffered an 26.9% decrease when compared with 2016, as a result of the significant downturn in traditional print industry as well as tightening spending by those luxury brand advertisers, the segment profit decreased correspondingly along with the sales drop. On the other hand, the digital media segment recorded a significant increase in segment revenue by 28.3%. The Group had leveraging on the economics of scale by operating a number of well-established Apps in 2017. The management of the Group has confidence that the digital media will continue its profitable trend afterwards.

(A) BUSINESS REVIEW

(i) Print Media and Art

The overall print media market followed the downward trend as in the past few years. According to the Advertising Expenditure Report 2017 issued by CTR China, the total advertising revenue of printed magazine category in 2017 decreased by 18.9% as compared with that of last year.

The Group commenced in year 2017 with six weekly/bi-weekly and seven monthly/bi-monthly magazines in both the PRC and Hong Kong, covering the subjects of lifestyle, news, finance, culture, art, health, etc.

In 2017, the Group's portfolio of printed magazine titles contributed to the advertising revenue of approximately RMB296.5 million (2016: RMB403.8 million), which recorded a decrease of approximately 26.6% as compared to 2016, which was in line with the downward trend in magazine advertising market.

Although the PRC advertising market of magazine category was extremely challenging, our Group still made an effort to achieve a fair performance in 2017. The revenue of our flagship magazine, "Modern Weekly" had suffered a decrease when facing the industrial depression in the overall print media market. However, it has still been ranked no. 2 in terms of revenue in weekly magazine market according to the research report issued by Admango and continuously maintained the irreplaceable position by most of the print media brand advertisers while many other print competitors were still struggling in the matter of survival.

As mentioned in previous section, by cooperating with Time Inc., "Modern Lady Weekly" had been rebranded into "INSTYLE 優家畫報" in May 2017; the magazine had experienced upgrades in terms of contents, design and layout etc., which makes it more attractive to brand advertisers. In addition, "INSTYLE 優家畫報" had successfully organized a number of events such as "Icon Award" during the year, which had increased its market recognitions amongst brand advertisers. As a result, "INSTYLE 優家畫報" recorded an increase in advertising revenue of 16.5% from May to December after rebranding as compared to the same period last year, and it is expected to organize more events and live shows in 2018. The reader's club of "INSTYLE 優家畫報", "You Jia Hui" (優家薈), has becoming more and more attractive to those female elite after running a series of events in several cities, the number of members of "You Jia Hui" (優家薈) had kept increasing during the year and the club membership fees had created additional income stream to the Group.

Our flagship business magazine, "Bloomberg Businessweek/China" (Simplified Chinese edition) also recorded a decline in the advertising performance along with the downward trend in print media industry. Nonetheless, according to the market research conducted by Admango, by comparing with 40 other business and financial magazines, it ranked no. 5 in terms of the advertising revenue. Moreover, "Bloomberg Businessweek/China" (Traditional Chinese edition) had organized several finance marketing events and forums in Hong Kong and those events enhanced the market recognition among the readers and most of the financial institutions. As such, the advertising performance of this magazine in 2017 was even slightly improved compared to that of 2016, irrespective of the declining magazine advertising industry.

Advertising revenues of other monthly magazines operated by the Group in the PRC and Hong Kong recorded different performances. Some titles such as "IDEAT" recorded rising advertising revenue as compared to last year, whilst some other monthly titles experienced revenue declines as per the general trend of the Group's print media business. The Group will continue to review such portfolio of monthly magazine and target to attain an optimal operating result in 2018 and onwards.

During the reporting period, the art business had contributed revenue of RMB15.1 million (2016: RMB14.0 million), which included the advertising revenue from our art magazines — "LEAP" and "the Art Newspaper", as well as the event income derived from art-related events organized by the Group and income from sales of certain pieces of artwork. In 2017, the Group had renovated some of the office space to become art galleries in order to promote artwork trading business. The Group plans to renovate more spaces in the coming year to refine our Modern Art Base which contains art galleries, art kitchen, bookshop and art studio so as to promote our art business. It is our management's belief that the art business will bring in additional profit in the coming future.

(ii) Digital Media & Television

By comparing to the stagnant advertising environment in print media sector, the overall market sentiment of the digital sector was comparatively optimistic. According to the Advertising Expenditure Report 2017 issued by CTR China, the advertising market of internet category achieved a year-on-year increase of 12.4% in 2017. The total revenue contributed by the Group's digital media recorded an increase by 28.3% in 2017 when compared with that of last year, which outperformed the market growth.

For the year 2017, the number of "iWeekly" downloads on both smartphone and tablet PC reached approximately 14.6 million together, an increase by 4.3% from the year ended 2016. "iWeekly" continuously upgraded its content by incorporating the selected contents from some famous international media brands, which enriched its globalized contents and further enlarged the readers' base and increase their adherence. It continued to be recognized as one of the most successful Chinese media Apps on the Apple's and Android's platforms. Moreover, the advertising revenue of "iWeekly" in 2017 was increased by 35.8% when compared with that of last year. It was because many of the branded advertising clients were eager to utilize their marketing budgets in digital Apps in 2017. "iWeekly" often undergo a content revamp and add more user-friendly functions, such as the daily news broadcast which target to increase the readers' adherence and to develop reader loyalty to the app.

"INSTYLE iLady", which was upgraded from our "iLady 365" App along with the rebranding of "Modern Lady Weekly", continued to be a comprehensive informative platform for elite women, has already accumulated more than 7.0 million users as at the end of 2017 as compared to approximately 5.4 million users of the previous "iLady 365" as at the end of 2016, which represented a 29.6% rise. By offering the "Ready-to-Buy" digital media experience to users, "INSTYLE iLady" was well-accepted by both the users and brand advertisers. Moreover, "INSTYLE iLady" has successfully integrated Metroer.com into its platform, where comprehensive solutions are provided for targeted customers on behalf of brand clients. As the App could effectively bring traffic to some advertiser's shopping platform or their official websites, "INSTYLE iLady" has increased its popularity amongst the brand advertisers and is becoming one of the main revenue streams of our digital business. We believe that "INSTYLE iLady" is a strategic move for the Group to ride on the recent trend of e-Commerce outbreak and will also become another income generator in the coming future.

"Bloomberg Businessweek 商業周刊中文版" has successfully enlarged its user base on both smartphone and tablet PC by reaching approximately 8.7 million together, which was 11.5% higher than that of last year. "Bloomberg Businessweek 商業周刊中文版" was recommended to be one of the Best Apps for the year 2017 in AppStore. The iPhone version was ranked no. 2 in Newsstand Top Grossing List in AppStore and, "Bloomberg Businessweek 商業周刊中文版" has also got the Top 2 ranking for a long period of time since 2015. Furthermore, along with the high quality content of the app and increased recognition amongst business elites, the subscription income of "Bloomberg Businessweek 商業周刊中文版" received via the App and WeChat had surged to RMB5.0 million in 2017 from RMB1.6 million last year; management expected the subscribed reader base would be continuously enlarged in the coming future, which eventually led to improved advertising performance. In the future, the Group will also explore new business opportunities in areas such as online courses for business English by cooperating with well-known education institutions.

With the acquisition of "Nowness" brand and media in 2017, the Group had hired a team of professionals to operate Nowness video platform in China since the second half of 2017, its creative and quality content had attracted increasing number of subscribers to follow the subscription account via WeChat, and had quickly developed a client portfolio with high-end brand advertisers. The advertising revenue derived from "Nowness" had reached RMB10.9 million in 2017 and it is expected the "Nowness" brand will contribute additional income in the coming year with the launch of "Nowness" app in April 2018.

Given the expansion plan in progress, the Group's digital media business had maintained a profit situation in the current year. The Group management is confident that the continuous growth in downloads of our App products will make us a leading digital platform, and will further generate considerable revenues in future. We believe that the operations of the digital media segment will be on the right track and continue to deliver satisfactory operating results in the coming years.

The TV team created value-added series by focusing on the customized production for its brand advertisers. TV media had achieved production revenue of RMB5.3 million in 2017 (2016: RMB8.8 million). Our TV team is looking for new opportunities to enlarge its client portfolio and endeavors for better performance in the coming future.

(B) BUSINESS OUTLOOK

The Group will continue to extend its business strategy towards the "4-M" direction, i.e. "Modern Publishing", "Modern Digital", "Modern Expo" and the new "Modern Space" incepted during the year.

"Modern Publishing" includes our printed magazines portfolio, which is still the leading printed media in the PRC market for the domestic and foreign brand advertisers of luxury goods and lifestyle products. The Group expects that the reduction in advertisements for printed magazines by luxury brands has gradually bottomed out, and the advertising volume of the Group's printed magazines began to rebound in the first quarter of 2018. As always, the Group also constantly reviews its magazines portfolio and identifies different partners to operate its printed magazines and other extended businesses. For example, the Group entered into an agreement with Xiamen Feibo Group to jointly operate a monthly magazine named "Life (生活)" and to develop various extended businesses under the brand of "National Spirit Achiever".

"Modern Digital" continues to be the driving force of our business growth. In mid-2017, the Group acquired an international video website "Nowness", which is an influential media in the fashion industry. The website won several international video awards in the past few years. By actively producing videos with refined and distinctive contents, the Group aims at attracting viewers and raising the number of downloads in Greater China and South East Asia. In addition, the Group is going to launch the "Nowness" App in April 2018, management expects that the huge traffic to the website and the App will inevitably stimulate a significant growth in brand advertising. Moreover, the Group will utilize the brand of "Nowness" to develop a series of extended businesses, including opening brand experience stores, launching brand-related products, introducing theme restaurants, organizing camera and video-related courses and so on, in order to explore other income sources. The Group will also study the addition of a website function for immediate online purchase after preview, and will progressively develop assisted purchase on e-commerce. The Group expects the "Modern Digital" segment to deliver a satisfactory performance in 2018.

"Modern Expo" will become the new driving force of the Group by utilizing our existing ample resources in marketing experts and connection with models, celebrities and artists. Taking "Photo Shanghai" as an example, the Group together with Montgomery, an international leading art exhibition organizer, have been organising very successful photo exhibitions in Shanghai for three consecutive years since 2014. Such exhibitions have aroused extensive attentions and were endorsed by both visitors and commercial sponsors. With the successful case of "Photo Shanghai", the Group will establish a joint venture with VNU Exhibitions Asia in 2018, and will plan and organize a series of profitable trade fairs with different themes such as art, LOHAS, creativity, culture, business and design. In this year, our first collaboration with VNU Exhibitions Asia is a financial investment-related exhibition jointly organized with "Bloomberg Businessweek/China (Simplified Chinese edition)".

In addition, "Modern Space" is a real estate project involving cultural and creative spaces actively deployed by the Group. Our first project is located in Shanghai and divided into three phases of development; the first phase witnessed the opening of the cultural and creative spaces in December 2017, which was transformed from old factories. The Group will continue to transform the park and intends to introduce The Swedish Museum of Photography during the second and third phase which will be built as a one-stop fashionable landmark featuring photo exhibition, catering, retail, courses and more. We will also consider the construction of boutique hotels in the park. The cultural and creative spaces will become the source of the Group's future profit growth. In the future, this type of cultural and creative spaces will be extended to different cities in the PRC and the next stop will be first-tier cities such as Beijing and Guangzhou.

Looking forward, the management believes that the further development of the "4-M" direction together with stringent cost control measures would help the Group materialize a turnaround from loss in the foreseeable future.

(C) FINAL DIVIDEND

To preserve more financial resources in response to the market stagnancy, the Directors do not recommend the payment of any final dividend (2016: HK1.0 cent per share).

(D) BOOK CLOSURE

The Annual General Meeting of the Company is scheduled on 30 May 2018. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 25 May 2018 to 30 May 2018 both days inclusive, during which period no transfer of share will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrars in Hong Kong, 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 24 May 2018.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash flows

During the year, the Group had a net cash inflow from operating activities of RMB4.5 million (2016: RMB22.2 million). The decrease in operating cashflow was largely attributable to the decline in advertising revenue received. On the other hand, the Group's cash outflow from investing activities amounted to RMB10.9 million (2016: RMB14.2 million) which was mainly attributable to the expenditure on leasehold improvements for new offices and cultural and creative space and the payment for software development in progress. The cash inflow of the Group from financing activities amounted to RMB7.5 million (2016: cash outflow of RMB12.3 million) which was mainly owing to the proceeds from partial disposal of equity interest in a subsidiary of RMB43.1 million.

Borrowings and gearing

As at 31 December 2017, the Group's outstanding borrowings were approximately RMB96.1 million (2016: RMB127.2 million). The total borrowings comprised secured bank borrowings of approximately RMB96.1 million (2016: secured bank borrowings of RMB73.7 million, unsecured bank borrowings of RMB38.7 million and other secured borrowings of RMB14.7 million). The gearing ratio as at 31 December 2017 was 14.7% (31 December 2016: 18.4%), which was calculated based on the total debts divided by total assets at the end of the year and multiplied by 100%.

The contracted maturity of borrowings based on the date which is the earliest possible date that the lenders could be required to repay was as follows:

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
On demand or within 1 year	96,144	100,563
Between 1 and 2 years	–	2,242
Between 2 and 5 years	–	6,710
Over 5 years	–	17,690
	96,144	127,205

Management Discussion and Analysis *(continued)*

CAPITAL EXPENDITURE AND COMMITMENT

Capital expenditure of the Group for the year included purchase of property, plant and equipment, purchase of intangible assets and payments for software development in progress of approximately RMB37.3 million (2016: RMB14.4 million).

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 and the Revenue Guarantee provided to Septwolves Invest as disclosed in Note 33 to the consolidated financial statements, as at 31 December 2017, the Group did not have any material contingent liabilities or guarantees other than those disclosed below.

As at 31 December 2017, the Group's bank loan of RMB33.0 million was secured by the Group's office properties in Beijing, which was guaranteed by Mr. Shao, the controlling shareholder of the Group; the Group's bank loan of RMB63.1 million was secured by the office apartment in Hong Kong.

As at 31 December 2017, the Group's printing credit line in an amount of approximately RMB7.0 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 2017.

EMPLOYEES AND SHARE AWARD PLAN

As at 31 December 2017, the Group had a total of 651 staff (2016: 703 staff), total staff costs (including Directors' remuneration) were approximately RMB166.7 million (2016: RMB200.2 million). The emoluments of the Directors and senior management are reviewed by the Remuneration Committee. The reduction in head counts was due to the rationalization of human resource structure in order to improve the corporate efficiency.

To recognize 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 on 3 December 2009 (the "Plan"). The Plan has become effective on 7 December 2009. The Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Stock Exchange"). During the year ended 31 December 2017, the Company contributed RMB1.1 million to the Plan and there were surplus funds in the Plan to acquire shares of the Company. During the year ended 31 December 2017, 100,000 Shares were awarded and vested to one selected employee under the Share Award Plan, as approved by the Board of Directors of the Company (2016: Nil).

Corporate Governance Report

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

CORPORATE GOVERNANCE REPORT

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. This report discloses how the Company has applied the principles of the CG Code for the year ended 31 December 2017.

Other than disclosed below in the paragraphs headed "Chairman and Chief Executive", 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 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 recognizes its responsibility to act in the interests of the Company and its shareholders as a whole. At 31 December 2017, the Board has nine Directors: five executive Directors and four independent non-executive Directors. Independent non-executive Directors represent one-third of the Board.

During the reporting period,

(a) Dr. Cheng Chi Kong resigned from the positions of the vice-chairman of the Board and a non-executive Director and he was appointed as honorary vice-chairman with effect from 26 August 2017.

(b) with effect from 11 October 2017, Mr. Wong Shing Fat resigned from the positions of chief executive officer and executive Director and Mr. Shao Zhong redesignated as the chief executive officer.

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. Mok Chun Ho, Neil
Ms. Yang Ying
Mr. Li Jian
Mr. Deroche Alain

Independent non-executive Directors
Mr. Jiang Nanchun
Mr. Wang Shi
Mr. Au-Yeung Kwong Wah
Dr. Gao Hao

The biographies of all the Directors, including their relationships, are set out on pages 73 to 75 of this Annual Report. During 2017, the Board is chaired by the Chairman, Mr. Shao Zhong. During the period from January 2017 up to his resignation in October 2017, Mr. Wong Shing Fat, an executive Director and the chief executive officer, oversees the management of the Group's business with the assistance of the Group's senior management team. Upon his resignation, Mr. Wong's responsibilities have been taken up by Mr. Shao Zhong as the chief executive officer. 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:

Name of Directors	Number of meetings attended	Number of meetings held during 2017 (or during the tenure of the respective director, as the case may be)
Executive Directors:		
Mr. Shao Zhong	7	7
Mr. Wong Shing Fat (resigned with effect from 11 October 2017)	4	7
Mr. Mok Chun Ho, Neil	7	7
Ms. Yang Ying	7	7
Mr. Li Jian	6	7
Mr. Deroche Alain	7	7
Non-executive Director:		
Dr. Cheng Chi Kong (resigned with effect from 26 August 2017)	1	7
INEDs:		
Mr. Wang Shi	0	7
Mr. Jiang Nanchun	0	7
Mr. Au-Yeung Kwong Wah	7	7
Dr. Gao Hao	6	7

Notes

1. On 3 December 2009, the Board resolved that, for transactions falling under Chapter 14 of the Listing Rules but with the amount involved less than HK$20 million and that all relevant percentage ratios not exceeding 5%, the same may be approved by any two Executive Directors, provided that within 5 working days from the date of signing of the agreement(s) for the transaction, a copy of such agreement(s) must be circulated to all Directors (including independent non-executive Directors). Out of the 7 Board meetings held, none falls within such category of meeting.

2. During the financial year ended 31 December 2017, the Board has circulated and passed a written resolution on 1 occasion which is dated 25 July 2017, apart from the physical board meetings stated above.

3. The annual general meeting of the Company for year 2016 was held on 9 May 2017 and each of Mr. Wong Shing Fat, Mr. Mok Chun Ho, Neil, Ms. Yang Ying, Mr. Li Jian, Mr. Deroche Alain and Mr. Au-Yeung Kwong Wah attended the said general 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

Each of our executive Directors has entered into a service contract with the Company for a term of three years. Our non-executive Director, Dr. Cheng Chi Kong, has been appointed for an initial term of three years. Furthermore, the Board confirms the term of appointment and functions of all independent non-executive Directors and Board Committee members with formal letters of appointment. Each Independent Non-executive Director is appointed for an initial term of two years.

Directors who are appointed to fill vacancies are subject to re-election at the first annual general meeting of the Company after his or her appointment. In addition, every Director, including every independent non-executive Director, shall retire from office by rotation at least once every three years. One-third of the Directors are required to retire by rotation from office at every annual general meeting under the Company's Article of Association. A retiring Director is eligible for re-election.

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.

Name of Director	Reading materials relevant to the Company's business or to their duties and responsibilities	Attending training courses on the topics related to corporate governance or regulations
Executive Directors:		
Mr. Shao Zhong	✔	✔
Mr. Wong Shing Fat (resigned with effect from 11 October 2017)	✔	✔
Mr. Mok Chun Ho, Neil	✔	✔
Ms. Yang Ying	✔	✔
Mr. Li Jian	✔	✔
Mr. Deroche Alain	✔	✔
Non-executive Director:		
Dr. Cheng Chi Kong (resigned with effect from 26 August 2017)	✔	✔
INEDs:		
Mr. Wang Shi	✔	✔
Mr. Jiang Nanchun	✔	✔
Mr. Au-Yeung Kwong Wah	✔	✔
Dr. Gao Hao	✔	✔

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 38(a) to the consolidated financial statements of this Annual Report on page 166. The remuneration policy of the Group is set out on page 70 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 and Senior Management" in this Annual Report by band is set out in note 35(d) to the consolidated financial statements of this Annual Report on page 162.

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

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Shao was the Chairman and took over the position of chief executive officer of the Company from October 2017 to the date of this report after the resignation of Mr. Wong Shing Fat as chief executive officer of the Company on 11 October 2017. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The division of responsibilities between the Chairman and the chief executive officer is clearly established and set out in the job mandate of the Chairman and chief executive officer. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. There is a strong independent element in the composition of the Board. Out of the 9 Board members, 4 are INEDs. The Board believed that the structure was conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board believed that Mr. Shao's appointment to the posts of Chairman and chief executive officer was beneficial to the business prospects and management of the Company.

BOARD COMMITTEES

The Board has established the Audit, Remuneration and Nomination Committees with terms of reference to deal with certain corporate governance aspects of the Group. The terms of reference of these Committees are published on the Company's website — www.modernmedia.com.cn 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.

In November 2016, the Board also established an Environmental, Social and Governance Committee ("ESG Committee") to formulate the policies and implement the procedures to deal with environmental, social and governance affairs of the Group.

AUDIT COMMITTEE

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

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 financial 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);

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

(f) To oversee the Company's financial reporting system and internal control system, and in particular the risk management system.

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:

	Number of meetings attended	Number of meetings held during 2017
Mr. Au-Yeung Kwong Wah	2	2
Mr. Wang Shi	0	2
Mr. Jiang Nanchun	0	2
Dr. Gao Hao	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 2017 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 2017.

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 2017.

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. Au-Yeung Kwong Wah (chairman of the Remuneration Committee), Mr. Jiang Nanchun and Dr. Gao Hao who took over the position after the resignation of Mr. Wong Shing Fat on 11 October 2017. 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 was:

	Number of meetings attended	Number of meetings held during 2017
Mr. Au-Yeung Kwong Wah	0	0
Mr. Jiang Nanchun	0	0
Mr. Wong Shing Fat (resigned with effect from 11 October 2017)	0	0
Dr. Gao Hao (appointed with effect from 11 October 2017)	0	0

Note:

1. During the financial year ended 31 December 2017, the Board had circulated and passed a written resolution on 2 occasions which were dated 25 July 2017 and 20 October 2017 respectively.

During the year ended 31 December 2017, the Remuneration Committee has performed the following works:

- reviewed and discussed the remuneration policy of the Group and the remuneration packages of directors of the Company;
- determined the remuneration of the executive Directors of the Company;
- reviewed and approved an award of shares under the Company's Share Award Scheme, as approved by the Board of Directors of the Company. Please refer to note 24(a) to the consolidated financial statements of this Annual Report on page 147.

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 2017 are set out in notes 38(a) and 35(d) to the consolidated 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 three independent non-executive Directors, namely Mr. Wang Shi (chairman of the Nomination Committee), Mr. Au-Yeung Kwong Wah, Mr. Jiang Nanchun. The primary duties of the Nomination Committee are including 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:

	Number of meetings attended	Number of meetings held during 2017
Mr. Wang Shi	0	0
Mr. Au-Yeung Kwong Wah	0	0
Mr. Jiang Nanchun	0	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The Company has established the ESG Committee in 2016 with written terms of reference. The ESG Committee currently comprises two Executive Directors, one Independent non-executive director and a Director of the Group's subsidiary, namely Mr. Shao Zhong (chairman of the ESG Committee), Mr. Mok Chun Ho Neil, Dr. Gao Hao and Ms. Zhong Yuanhong. The former member, Mr. Wong Shing Fat, resigned from the position on 11 October 2017. The primary duties of the ESG Committee are including (i) formulate and implement the ESG policies and strategies; (ii) set-up the key performance indicators and monitor the progresses and the end-results; (iii) review and revise the ESG policies to ensure the effectiveness of implementation.

The duties of the ESG 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 ESG Committee. The number of meeting of the ESG Committee held and attended by each of the ESG Committee members during the year was:

	Number of meetings attended	Number of meetings held during 2017
Mr. Shao Zhong	1	1
Mr. Mok Chun Ho Neil	1	1
Dr. Gao Hao	1	1
Ms. Zhong Yuanhong	1	1
Mr. Wong Shing Fat (resigned with effect from 11 October 2017)	0	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 recognizes 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 Board appointments 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, 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 Government 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 ad 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 2017.

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

Grant Thornton Hong Kong Limited ("Grant Thornton") was first appointed as the auditors of the Group in 2016 after the resignation of previous auditors, PricewaterhouseCoopers ("PwC"). During 2017, Grant Thornton provided the following audit and non-audit services to the Group:

	2017 RMB'000	2016 RMB'000
Audit services	1,318	980
Other non-audit services	218	200
Total	1,536	1,180

Grant Thornton will retire and offer themselves for re-appointment at the annual general meeting of the Company to be held on 30 May 2018.

A statement by Grant Thornton about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" section of this Annual Report on pages 77 to 81.

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 government 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 73 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. Shareholder relations play an integral part in corporate governance. The Group keeps shareholders informed of its performance, operations and significant business developments by adopting a transparent and timely corporate disclosure policy which complies with the Listing Rules and provides all shareholders equal access to such information. We report on financial and operating performance to shareholders twice each year through annual and interim reports. We give shareholders the opportunity to raise concerns or propose recommendations to the Board at the Company's annual general meetings. A representative of the Company's external auditor is requested to attend the annual general meetings to answer questions about the external audit and the audit report. Shareholders may visit our website: www.modernmedia.com.cn for up-to-date financial and other information about the Group and its activities.

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

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 to 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 7/F, Global Trade Square, No. 21 Wong Chuk Hang, Aberdeen, 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, 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 30 May 2017 at 7/F, Global Trade Square, No. 21 Wong Chuk Hang, Aberdeen, 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. There was no change to the Company's Articles during the year 2017.

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.

Directors' Report

The Directors are pleased to submit their report together with the audited financial statements of Modern Media Holdings Limited and its subsidiaries for the year ended 31 December 2017.

BUSINESS REVIEW

Key financial and business performance indicators

The key financial and business performance indicators comprise profitability growth, return on equity, dividend growth and gearing ratio. Details of profitability analysis are shown in "Management Discussion and Analysis" section of this annual report. The Group's return on equity, based on loss after tax to net asset, decreased to -8.3% in the year under review as compared to the previous year, which mainly due to substantial decrease in advertising revenue contributed by our print media as a result of the downturn experienced by the print industry, and the increasing production costs as we evolved to different forms of advertising such as soft article edition, organized events and forums, etc.. The Directors do not recommend the payment of any final dividend for the current year (as compared to the final dividend of HK$1.0 cent per share for last year) since the Directors recommend to preserve more financial resources in response to the market stagnancy. The Group's gearing ratio, calculated based on total debts divided by total assets at the end of the year and multiplied by 100%, decreased from 18.4% in 2016 to 14.7% in the year under review; the Group will continue to safeguard its capital adequacy position, whilst to maintain a balance between business growth and risk management.

Environmental, Social and Governance

The Group is committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff, and contributes to the community in which we conduct our businesses and creating a sustainable return to the Group.

In November 2016, the Board also established the ESG Committee to formulate the policies and implement the procedures to deal with environmental, social and governance affairs of the Group.

Environmental protection

The Group has implemented internal recycling program on a continuous basis for consumable good such as toner cartridges and paper to minimize the operation impact on the environment and natural resources. Recycled papers have also been used as key printing materials. The Group also implemented energy saving practices in offices and branch premises where applicable. The Group also plans to complete the upgrade of air-conditioning and electricity systems to achieve the energy saving and provision of clear air to workplace where possible.

Workplace Quality

The Group is an equal opportunity employer and encourages diversity regardless of age, gender, marital status and race. A Board Diversity Policy, with the aim of enhancing the quality of the Board's performance by diversity, was adopted in August 2013.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. The Group is people-focused, we attract and retain key personnel and talents with appropriate skills, experience and competence which would complement and meet the corporate and business objectives of the Group.

We provide on-the-job training and development opportunities to promote staff self-actualization and enhance our employees' career progression. We also encourage staff participation of external seminars and lectures to keep abreast of changes and updates on areas of legal, compliance, financial accounting and tax knowledge. It is believed that the staff knowledge and skills are aligned and enhanced through relevant, systematic and planned trainings which in return can improve the efficiency and productivity of the Group.

The Group encourages continuous professional development training for the Directors and senior management to develop and refresh their knowledge and skills which includes seminars and workshops, updates on regulatory requirements and development and corporate governance practices.

The Group provides competitive remuneration package to attract and motivate the employees. It offers competitive remuneration, share award schemes, medical benefits, insurance and leave entitlement commensurate to market standards, and we regularly review the remuneration package of employees and make necessary adjustments to confirm to the market standards. We establish and implement policies that promote a harmonious and productive workplace.

Compliance with laws and regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, it has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

Relationships with key stakeholders

The Group's success also depends on the support from key stakeholders which comprises employees, customers, service vendors, regulators and shareholders.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Groups' human resource management is to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group's principal customers are from 4A advertising companies and branded customers which place their advertisements on our printed and digital media products. The Group has the mission to provide excellent and creative customer service whilst maintain our long-term profitability, business and asset growth. Various means have been established to strengthen the communication between the customers and the Group in the provision of excellent customer service towards market penetration and expansion.

Service vendors

Sound relationships with key service vendors of the Group are important in supply chain which can derive cost effectiveness and foster long-term business benefits. The key service vendors comprise the printing vendors, overseas and local licensors and contents providers, photos suppliers and other business partners which provide value-added services to the Group.

Regulators

The Group operates in advertising sector which is regulated by the Hong Kong Stock Exchange, Securities and Futures Commission, News and Publication Bureau ("新聞出版局"), Industrial and Communication Department ("工業和信息化部") in the PRC and other relevant authorities. It is the Group's desire to keep up-to-date and ensure the compliance with new rules and regulations.

Shareholders

One of our corporate goals of the Group is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders by stable dividend payouts taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

Principal risks and uncertainties

The Board is ultimately responsible for ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible. The Board delegates some of this responsibility to various operational departments.

The Group's principal business activities comprise the provision of advertising services to advertising agencies and branded customers. It will be exposed to a variety of key risks including credit risk, interest risk, liquidity risk, operational risk and market risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 3 "Financial Risk Management" to the consolidated financial statements of this annual report.

The Group's business and profitability growth in the year under review is affected by the volatility and uncertainty of macro-economic conditions in the PRC and Hong Kong. The PRC government had continued on with its anti-corruption crack down which severely impacted the sentiment of the retail market, especially in luxury consumption. The brand advertisers cut down their budget which was reflected in the downward trend of the advertising spending in recent years. The long-term business and profitability growth of the Group is expected to continue to be affected by the changes in macro-economic variables including real GDP growth, consumer price index, credit demand, unemployment rate etc. of the PRC and Hong Kong.

Proposed spin-off

As mentioned in the Company's announcement dated 27 June 2016 and other previous announcements concerning the proposed spin-off of the digital and television production businesses of the Group, the Company has decided to postpone the application of proposed spin-off to a later stage owing to the volatility of the capital market. Following that, the Company will actively investigate and explore the opportunities to kick-off the proposed spin-off again.

Future business development

In the coming future, we will continue to foster the implementation of vertical industry chain integration, upgrade and optimize the existing assisted purchase feature on e-commerce, enhance online and offline activity and develop the integrated marketing brand consultancy service. Also, we will further develop the art sector business by leveraging on our existing strengths of our art and commercial media platforms through the organization of art exhibitions or activities and the provision of art consultation services.

Despite the foregoing, the Group will continue to seek sustainable business expansion and market penetration, and to pursue profitability growth by diversification of income streams, improvement of cost efficiency and containing of bad debts. The Group will also adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

On 10 March 2017, the Company entered into an investment agreement with Hong Kong Septwolves Invest-Holding Limited ("Septwolves Invest"), pursuant to which each of the Company and Septwolves Invest have agreed to subscribe for 1 share and 428,570 shares of Modern Digital Holdings Limited ("MDHL"), a wholly-owned subsidiary of the Company. Upon the completion of such subscriptions on 27 July 2017, MDHL became owned as to 70% and 30% by the Company and Septwolves Invest respectively. The Company is of the view that, apart from providing an immediate funding and increasing the liquidity of the Group, introducing Septwolves invest, whose ultimate controlling shareholders have the expertise, rich resources and networking, as a strategic shareholder of MDHL would optimize sales network of MDHL, and assist MDHL in developing and strengthening its long-term business development by leveraging on the financial strength and extensive business networks of Septwolves Invest (and its associated corporations). For further details, please refer to the announcements of the Company dated 10 March 2017, 22 March 2017 and 4 August 2017 respectively.

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 11(a) to the consolidated financial statements. An analysis of the Group's performance for the year by business segments is set out in note 5 to the consolidated financial statements.

FINANCIAL RESULTS AND DISTRIBUTABLE RESERVES

The loss of the Group for the year and the state of affairs of the Company and the Group as at 31 December 2017 are set out in the consolidated financial statements on pages 82 to 84 and page 164.

Movements in the reserves of the Company and amounts available for distribution to shareholders are disclosed in note 37(a) to the consolidated financial statements. Movements in the reserves of the Group are disclosed in the consolidated statement of changes in equity on page 85.

DIVIDEND

The Board did not recommend payment of final dividend (2016: HK$1.0 cent per share) for the year ended 31 December 2017.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

FIXED ASSETS

Movements in the fixed assets of the Group are set out in note 14 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 23.4% and 9.3% of the Group's total purchases for the year ended 31 December 2017 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 39.8% and 12.0% of the Group's total sales for the year ended 31 December 2017 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 2017 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 168.

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 (resigned with effect from 11 October 2017)
Mr. Mok Chun Ho, Neil
Ms. Yang Ying
Mr. Li Jian
Mr. Deroche Alain

Non-executive Director

Dr. Cheng Chi Kong *(Vice-Chairman)* (resigned as non-executive Director and appointed as honorary vice-chairman with effect from 26 August 2017)

Independent non-executive Directors

Mr. Wang Shi
Mr. Jiang Nanchun
Mr. Au-Yeung Kwong Wah
Dr. Gao Hao

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the Directors and chief executive of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code or as otherwise notified to the Company:

Long Positions in the Company

Name of Director	Company/Name of Group member	Capacity/Nature of interest	Number of ordinary shares of the Company held	Approximate % of issued share capital
Shao Zhong ("Mr. Shao")	The Company	Beneficial owner	282,422,000	64.43%
Mok Chun Ho, Neil	The Company	Beneficial owner	1,904,000	0.43%
Yang Ying	The Company	Beneficial owner	110,000	0.03%
Deroche Alain	The Company	Beneficial owner	94,000	0.02%

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	上海格致廣告有限公司 (Shanghai Gezhi Advertising Co., Ltd.*, "Shanghai Gezhi")	Interest of controlled corporations (Note 5)	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 6)	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 7)	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 8)	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 9)	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 10)	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 Xiandai")	Interest of controlled corporations (Note 11)	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")	Interest of controlled corporations (Note 12)	100%

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

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. 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.

6. 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.

7. 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.

8. 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.

9. 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

10. Guangzhou Modern Video is held as to 100% by Guangzhou Mobile Digital. Mr. Shao is accordingly deemed by the SFO to be interested in the equity interest in Guangzhou Modern Video held by Guangzhou Mobile Digital of which is Mr. Shao's controlled corporation.

11. Guangzhou Xiandai 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 Xiandai held by Shanghai Senyin which is Mr. Shao's controlled corporation.

12. 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.

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 2017, 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 2017
Madam Zhou Shao-min *(Note 1)*	Interest of spouse	282,422,000	64.43%
FIL Limited	Beneficial owner	34,572,000	7.89%
Harmony Master Fund *(Note 2)*	Beneficial owner	22,324,000	5.09%
United Achievement Limited *(Note 3)*	Beneficial owner	25,020,000	5.71%
Warburg Pincus & Co. *(Note 3)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus Partners LLC *(Note 3)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus Private Equity X, L.P. *(Note 3)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus X, L.P. *(Note 3)*	Interest of corporation controlled by the substantial shareholder	25,020,000	5.71%
Warburg Pincus X, LLC *(Note 3)*	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. 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 2017, the number of Shares as reported in such notice to be held by the relevant shareholder was 22,244,000.

3. 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 of 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 2017 are set out in note 24(a) to the consolidated financial statements of this Annual Report on page 147.

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 2017.

Purpose and its participants

The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Eligible participants of the Scheme include (i) employees of the Company, its subsidiaries or invested entity; (ii) non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) other groups or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (v) any company wholly owned by one or more eligible participants as referred to in the above categories.

Total number of Shares available for issue

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital ("Issued Share Capital") of the Company from time to time. The total number of Shares which may be issued upon the exercise of all options to be granted under the Scheme and any other share option schemes of the Company as may from time to time adopted by the Company as permitted under the Listing Rules initially shall not in aggregate, exceed 10% of the Issued Share Capital as at the date of adoption of the Scheme (and thereafter, if refreshed, shall not exceed 10% of the Issued Share Capital as at the date of approval of the refreshed limit by the Shareholders). As at the date of 2017 Annual Report, the maximum number of Shares that may be granted under the Scheme was 40 million Shares. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting with such participant and his associates abstaining from voting.

No share option was granted, exercised, cancelled or had lapsed under the Scheme during the year 2017 and no share option was outstanding under the Scheme as at 31 December 2017.

Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of the Company with such grantee and his associates abstaining from voting.

Period within which the Shares must be taken by under an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commerce on a day after the date upon which the offer for the grant of option is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

Minimum period for which an option must be held before being exercised

Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Scheme for the holding of an option before it can be exercised.

Amount payable on acceptance of the option and the period within which payments be paid

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than 10 years from the date of such grant subject to the provisions for early termination thereof.

Basis of determining the exercise price

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

Remaining life

Subject to any earlier termination in accordance with its rules, the Scheme shall remain in force for a period of ten years commencing on 24 August 2009. As at the date of the 2017 Annual Report, the Scheme had a remaining life of slightly more than one year.

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 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Investment in online search services held by Mr. Shao Zhong

As at 31 December 2017, Mr. Shao, an executive Director and the controlling Shareholder, held about 6.4% 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

Save as disclosed in the paragraph headed "Connected Transactions" and "Continuing Connected Transactions" below, no transaction, arrangement or 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).

PERMITTED INDEMNITY PROVISION

Pursuant to article 188 of the Articles of Associations of the Company, every Director of the Company is entitled to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of the duties of his office or otherwise in relation thereto (except such is incurred or sustained through his own fraud or dishonesty). Such provision is currently in force and was in force throughout the financial year ended 31 December 2017.

The Company has taken out and maintained directors' liability insurance throughout the financial year ended 31 December 2017, which provides appropriate cover for the Directors.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existing during the year.

CONNECTED TRANSACTIONS

Certain connected transactions took place during the financial year ended 31 December 2017 and/or subsisted as at 31 December 2017:

Contractual Arrangements

2009 Arrangements

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 2009 Arrangements include:

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

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

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

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

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

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

2011 Arrangements

The following connected transaction ("2011 Arrangements", collectively with the 2009 Arrangements, the "Contractual Arrangements") was entered into by the Group in September 2011. For more details, please refer to the announcement of the Company dated 21 September 2011 (the "2011 Announcement").

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 RMB 18,000,000 (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* ("Guangzhou Xiandai", which was beneficially owned as to 95% by Mr. Shao, GZ Xiandai together with SH Senyin are collectively referred to as "Target Companies")) and Modern Mobile Digital Media Company Limited ("MM Mobile Digital"), pursuant to which MM Mobile Digital has been granted options to acquire, directly or through one or more nominees, the entire equity interest in the Target Companies at nil consideration or the minimum amount as permitted by the applicable PRC laws;

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

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

(e) the proxy agreements dated 20 September 2011 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).

2015 Arrangements

On 10 July 2015, the Group, through its wholly owned subsidiaries, entered into the 2015 Arrangements (as shown below) with Mr. Shao (a Director and substantial Shareholder), Guangzhou Xiandai, Linkchic (Beijing) Network Technology Co., Ltd* (每城美客 (北京) 網絡科技有限公司) ("Linkchic") and Guangzhou Modern Video Media Co., Ltd* (廣州摩登視頻傳媒有限公司) ("Guangzhou Modern Video", (Linkchic and Guangzhou Modern Video, collectively, the "Target Subsidiaries"). The 2015 Arrangements include:

(a) the equity pledge agreements dated 10 July 2015 and entered into between Yazhimei and Guangzhou Xiandai 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 10 July 2015 and entered into between MM Mobile Digital, Guangzhou Xiandai and the Target Subsidiaries, respectively, 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 Subsidiaries at nil consideration or the minimum amount as permitted by the applicable PRC laws;

(c) business operation agreements dated 10 July 2015 and entered into between Yazhimei, Guangzhou Xiandai and the Target Subsidiaries, pursuant to which the Target Subsidiaries 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 Subsidiaries;

(d) the management and consultation services agreements dated 10 July 2015 and entered into between Yazhimei and the Target Subsidiaries, pursuant to which the Target Subsidiaries 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 Subsidiaries; and

(e) the proxy agreements dated 10 July 2015 entered into between Yazhimei, Mr. Shao and Guangzhou Xiandai, pursuant to which Mr. Shao is authorised to exercise the shareholders' rights in each of the Target Subsidiaries including attending shareholders' meeting and exercising voting rights (as long as Mr. Shao remains as the chairman of Yazhimei) ((a) to (e), collectively the "2015 Arrangements").

The Target Subsidiaries are wholly-owned subsidiaries of Guangzhou Xiandai and their economic benefits as well as the risks associated therewith have already been transferred to the Company under the 2011 Arrangements (or, as the case maybe, since being acquired by Guangzhou Xiandai). The 2015 Arrangements have similar terms in substance with those stated in the 2011 Arrangements. Our PRC legal adviser is of the view that entering into the 2015 Arrangements would further strengthen the Group's management control over the Target Subsidiaries.

As at 31 December 2017, there were in total 13 operating companies established in the PRC ("OPCOs" and each an "OPCO"), including (i) 9 companies ("Printed Media OPCOs") which carried on the printed media business, and (ii) 4 companies ("Digital Media OPCOs") which carried on the mobile digital media business (as defined in the 2011 Announcement).

The Printed Media OPCOs

The Printed Media OPCOs comprise the following members of the Group: Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu, Zhuhai Modern Zhimei, Shanghai Yage, Beijing Yage, Shanghai Gezhi, Beijing Yage Zhimei and Shenzhen Yage Zhimei.

The Printed Media OPCOs carry on the printed media business of the Group, which includes (i) design, production and agency services of various advertisements; (ii) wholesale and retail sale of the books, newspapers, periodicals edited and published in the PRC; (iii) planning of literary arts activities and exhibitions; and (iv) consultation services for books information, project planning, enterprise investment and economic information.

The Digital Media OPCOs

The Digital Media OPCOs comprise the following members of the Group: Shanghai Senyin, Guangzhou Mobile Digital, Linkchic Beijing and Guangzhou Modern Video.

The Digital Media OPCOs carry on the mobile digital media business of the Group, which includes (i) information technology business; (ii) holding of a digital publishing license issued by the PRC Government; (iii) holding of a television programme production permit issued by the PRC Government; and (iv) design and production of advertisements, planning of cultural events and exhibition.

Except for Linkchic Beijing and Guangzhou Modern Video, which are subsidiaries of Guangzhou Mobile Digital, each of the OPCOs was a party to the Contractual Arrangements.

OPCO's significance and financial contribution to the Group

By means of the Contractual Arrangements, the Group is permitted to engage in the printed media business and the digital media business in the PRC as set out above which foreign ownership in such PRC entities is restricted. The following table sets out the respective financial contribution of the (i) Printed Media OPCOs and (ii) Digital Media OPCOs to the Group:

	Significance and contribution to the Group					
	Revenue For the year ended 31 December		Net loss/profit For the year ended 31 December		Total assets As at 31 December	
	2016	2017	2016	2017	2016	2017
Printed Media OPCOs	2.33%	8.11%	–212.50%	62.69%	17.95%	23.59%
Digital Media OPCOs	3.08%	5.07%	–211.13%	33.23%	8.66%	13.79%

Revenue and assets subject to the Contractual Arrangements

The table below sets out the OPCOs' (i) revenue; and (ii) assets which are consolidated into the accounts of the Group pursuant to the Contractual Arrangements:

	Revenue For the year ended 31 December 2017 RMB'000	Assets As at 31 December 2017 RMB'000
Printed Media OPCOs	35,315	154,059
Digital Media OPCOs	22,089	90,103

Reasons for using and risks associated with the Contractual Arrangements

Under the prevailing laws and regulations in the PRC, companies with foreign ownership are restricted from engaging in the publishing business and digital media business in the PRC. As such, the Company relies on the OPCOs to conduct certain parts of the Group's businesses in the PRC. The Company manages to maintain an effective control over the financial and operational policies of the OPCOs through the Contractual Arrangements which effectively transfer the economic benefits and pass the risks associated therewith of the OPCO to the Company, and as a result, the OPCOs have been consolidated as subsidiaries of the Group.

The Board wishes to emphasise that the Group relies on the Contractual Arrangements to control and obtain the economic benefits from the OPCOs, which may not be as effective in providing operational control as direct ownership. The Company may have to rely on the PRC legal system to enforce the Contractual Arrangements, which remedies may be less effective than those in other developed jurisdictions. Any conflicts of interest or deterioration of the relationship between the registered holders of the equity interest in the OPCOs and our Group may materially and adversely affect the overall business operations of the Group. The pricing arrangement under the Contractual Arrangements may be challenged by the PRC tax authority. If the Group chooses to exercise the option to acquire all or part of the equity interests in any of the OPCOs under the respective option agreements under the Contractual Arrangements, substantial amount of costs and time may be involved in transferring the ownership of the relevant OPCO held by its registered holder(s) to the subsidiaries equity-owned by the Company. There can be no assurance that the interpretation of the Contractual Arrangements by the PRC legal advisers to the Company is in line with the interpretation of the PRC governmental authorities and that the Contractual Arrangements will not be considered by such PRC governmental authorities and courts to be in violation of the PRC laws. In addition, the PRC governmental authorities may in the future interpret or issue laws, regulations or policies that result in the Contractual Arrangements being deemed to be in violation of the then prevailing PRC laws.

Despite the above, as advised by the PRC legal advisers to the Company, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under, the current PRC laws. The Company will monitor the relevant PRC laws and regulations relevant to the Contractual Arrangements and will take all necessary actions to protect the Company's interest in the OPCOs.

Material changes

Save as disclosed above, there has not been any material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2017.

For any potential changes to the Contractual Arrangements, please refer to the paragraph headed "Deviation from the guidance letter issued by the Stock Exchange (HKEx-GL77-14) ("Guidance Letter") (Updated in August 2015)" below.

Unwinding of the Contractual Arrangements

Up to 31 December 2017, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed.

Deviation from the guidance letter issued by the Stock Exchange (HKEx-GL77-14) ("Guidance Letter") (Updated in August 2015)

The Company noted that the Stock Exchange has issued the updated Guidance Letter in August 2015 to provide further guidance to listed issuers using contract-based arrangements to indirectly own and control any part of their business. Pursuant to the Guidance Letter, a listed issuer should ensure that where OPCO's shareholders are officers or directors of the issuer, the power of attorney under the contractual arrangement in relation to the exercise all shareholders' rights of OPCO should be granted in favour of other unrelated officers or directors of the issuer so as to avoid any potential conflicts of interests.

Under the Contractual Arrangements, Mr. Shao, being the registered equity holder of the OPCOs and an executive Director, is authorised to exercise the shareholders' rights in each of the OPCOs. The existing Contractual Arrangements have yet to sufficiently address the said requirement newly in place. Accordingly, the Company engaged its legal advisers as to the PRC laws to review the existing Contractual Arrangements and the Company may enter into supplemental agreements upon receiving advise from its legal advisers as to PRC laws and make further disclosure(s) as to any changes to the existing Contractual Arrangements.

The Contractual Arrangements allow the Company to consolidate the financial results of the OPCOs into the Group's financial statements as if they were the Group's wholly-owned subsidiaries. The Directors consider that the Contract 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 2017 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the OPCOs has been substantially retained by the relevant subsidiary of the Group; (ii) no dividends or other distributions have been made by the OPCOs to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and (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 OPCOs during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

Other Connected Transactions during the year

During the year, the Group has entered into certain related party transactions as disclosed in Note 35 to the consolidated financial statements. Such transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Company disclosed in its prospectus dated 28 August 2009 and announcement dated 21 September 2011 which the Group entered into and will continue 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 2009 Arrangements and 2011 Arrangements have complied with the reporting and announcement requirements during the year. The Continuing Connected Transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that the Continuing Connected Transactions have been entered into in accordance with the relevant Contractual Arrangements and that no 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 the auditor's attention that causes the auditor to believe that the disclosed continuing connected transaction 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 the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the relevant terms of Contractual Agreements as set out in the Prospectus and the 2011 Announcement.

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

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2017, the Group had around 651 employees (2016: 703). 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 38(a) and 9 of the consolidated 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 income statement for the year ended 31 December 2017 were RMB28.3 million. Details of the contribution retirement schemes are set out in note 2.20 of the consolidated 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 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2017, the Company continued to apply the principles set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "CG Code").

The Company is committed to maintaining a high standard of corporate governance. Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this Annual Report on pages 38 to 50.

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 of the Listing Rules. The Board has, on 25 December 2015, amended the terms of reference of the Audit Committee to be in line with the provisions of the CG Code, a copy of which is posted on the website of the Company and the Stock Exchange. 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 Dr. Gao Hao.

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. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2017. Starting from 2016, the Audit Committee performs the duties as stated in the amended terms of reference of the Audit Committee, including reviewing the risk management system of the Group.

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 2017, 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

Grant Thornton was first appointed as the auditors of the Group in 2016 after the resignation of previous auditors, PwC.

The consolidated financial statements for the year ended 31 December 2017 have been audited by Grant Thornton, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Shao Zhong
Chairman

Hong Kong, 23 March 2018

Biographical Details of Directors & Senior Management

DIRECTORS

Mr. SHAO Zhong (邵忠), aged 57, the chairman of the Board, the chief executive officer of the Company and the chief content officer of the Group, who is also 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 was the chief executive officer of the Company from September 2015 to November 2016, and he was again appointed as the chief executive officer with effect from October 2017. Mr. Shao is responsible for the overall corporate strategies, policy-formulating, instilling corporate philosophy as well as strategic planning, development and expansion of the Group's new media businesses. 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 59, the chief executive officer of our Group responsible for the corporate and business planning and development as 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. Mr. Wong was appointed as vice chairman in September 2015. 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 30 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. Wong tendered his resignation as an executive Director and chief executive officer with effect from 11 October 2017.

Mr. MOK Chun Ho, Neil (莫峻皓), aged 52, 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 23 years of experience in finance and accounting management through his previous financial positions with several listed and private companies in Hong Kong.

Ms. YANG Ying (楊瑩), aged 42, was appointed as an executive Director with effect from 1 September 2015. Ms. Yang was graduated in Shanghai Foreign Trade College (上海對外貿易學院) in July 1999, majored in Foreign Trade Economy and obtained her EMBA degree from a course jointly provided by Shanghai Jiao Tong University and Euromed Management Marseille in Shanghai in November 2013. Ms. Yang has more than 18 years' working experience in the Advertising, Marketing and Public Relationship. Ms. Yang worked for Swatch Group and The Wharf Holdings Limited after graduation. In 2000, Ms. Yang 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. Yang joined Vogue Magazine, China as Associate Publisher and Advertising Director from May 2005 to July 2009. In August, 2009, Ms. Yang rejoined the Group as Shanghai Office General Manager to manage the sales and marketing and assisting the business development of the Group.

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

Mr. LI Jian (李劍), aged 42, was appointed as an executive Director with effect from 1 September 2015. Mr. Li joined the Group in September 2011 as the deputy publisher for "Bloomberg Businessweek 商業周刊中文版/China" and deputy general manager of the Group's operations in the Beijing region. He was promoted, on 2 September 2012 and in February 2013 respectively, to the general manager of the Beijing region and the publisher for "Bloomberg Businessweek 商業周刊中文版/China", "Bloomberg Businessweek 商業周刊中文版" (Traditional Chinese edition) and the platform for mobile terminal of "Bloomberg Businessweek 商業周刊中文版". Prior to joining the Group, he had served in two international media companies and held various senior positions, such as the publisher for a number of media. Mr. Li was a pioneer in the digital publication and visual media industries and has accumulated 14 years of working experience in the media field. In the earlier years, Mr. Li had worked for internationally well-known consulting agencies. Mr. Li has gained extensive experience in cross-media operations from international media groups over the years, which will facilitate the Group in exploring and integrating cross-media platforms that will contribute to the development of business. He graduated from John Molson Business School, Concordia University of Canada with a bachelor's degree in Business in 2000.

Mr. Alain DEROCHE, aged 56, was appointed as an executive Director with effect from 1 June 2016. Mr. Deroche joined our Group in June 2008 as vice president and publishing director of the Group and has since been responsible for the management of our Group's international copyright business and the planning and content innovation for our Group's printed publications. Before his appointment as an executive Director, Mr. Deroche was the publishing director of two of our Group's international titles, namely "Numero" and "The Good Life", and was also the co-publisher of "IDEAT". Mr. Deroche has extensive experience in international media management of the international media industry. Prior to joining our Group, Mr. Deroche was employed by Hachette Filipacchi Associes, a publishing house in France from September 1989 to June 2008. Immediately before he left the said entity, Mr. Deroche served as the general manager in charge of the publication in the PRC. He was also the publishing director for ELLE's international edition from 1999 to 2005. Mr. Deroche obtained his postgraduate degree in international business administration from Université de Paris-Dauphine (English translation: Paris Dauphine University) of France in October 1986.

NON-EXECUTIVE DIRECTOR

Dr. CHENG Chi Kong (鄭志剛), aged 38, was appointed as the non-executive Director in April 2013 and was appointed as the non-executive vice chairman of the Board with effect from 1 December 2016. Dr. Cheng obtained a Bachelor of Arts degree (cum laude) from Harvard University, and was conferred the Honorary Doctorate of Humanities by the Savannah College of Art and Design. He worked in a major international bank and has substantial experience in corporate finance. Dr. 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 Department Store China Limited, Chow Tai Fook Jewellery Group Limited, International Entertainment Corporation and a non-executive director of Giordano International Limited. Dr. Cheng ceased to be an executive director of New World China Land Limited with effect from 4 August 2016 upon its withdrawal of listing on the Stock Exchange.

Dr. 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, the chairman of China Young Leaders Foundation, the chairman of New World Group Charity Foundation Limited, the founder of K11 Art Foundation and a member of Board of the West Kowloon Cultural District Authority.

Dr. Cheng resigned from the positions of vice-chairman of the Board and a non-executive Director and he was appointed as honorary vice-chairman with effect from 26 August 2017.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Shi (王石), aged 66, 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 from 1988 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 45, was appointed as the independent non-executive Director on in August 2009. Mr. Jiang has over 20 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 Shenzhen Stock Exchange) and served as its chairman of the board of directors. 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 53, 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 19 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 appointed as the executive director of China Lumena New Materials Corp. in September 2014 and resigned from his position as executive director in April, 2015.

Dr. GAO Hao (高皓), aged 35, was appointed as the independent non-executive Director in August 2016. Dr. Gao was awarded a bachelor's degree in engineering from Tsinghua University, the PRC, in July 2005 specialising in automation, and also a bachelor's degree in economics from Peking University, the PRC, in July 2007, respectively. Dr. Gao was further awarded a Ph.D. degree in management from Tsinghua University, the PRC, in June 2012 specialising in management science and engineering. Dr. Gao was the chief editor of 《家族企業治理叢書》and《家族財富傳承叢書》 published by People's Oriental Publishing & Media Co., Ltd. (The Oriental Press) (人民東方出版傳媒有限公司(東方出版社)) since January 2011 to June 2016. Dr. Gao is currently the head of the Global Family Business Research Center of Tsinghua University PBC School of Finance （清華大學五道口金融學院）.

SENIOR MANAGEMENT

Ms. ZHONG Yuanhong (鍾遠紅), aged 46, 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 19 years of experience in administrative management, with a particular expertise in printing and the post production management of publications, in the media industry.

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

Mr. CHING Siu Wai (程少偉), aged 52, 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 23 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. Ching tendered his resignation as creative director and deputy general manager with effect from 20 June 2017.

Mr. LIM Timothy Edward (林添靈), aged 43, 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 18 years of experience in international fashion news reporting and styling for advertising and professional fashion media.

Ms. HUANG Wenhua (黃文樺), aged 47, 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 16 years of experience in the media industry. Ms. Huang tendered her resignation as regional general manager with effect from 31 December 2017.

Ms. YEH Shaway (葉曉薇), aged 49, 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. Ms. Yeh tendered her resignation as Style Editorial Director and assumed the position as consultant with effect from 30 June 2017.

Ms. MA Li (馬驪), aged 35, joined our Group in November 2009 and now is the finance and controlling director of the Group, responsible for the financial planning and analysis of the Group and all media business units. Apart from financial management, she is also responsible for internal controls and policy management for the Group. Prior to joining the Group, she had worked for PricewaterhouseCoopers as the senior auditor for over 5 years. She obtained her bachelor of management and bachelor of finance from Shanghai University of Finance and Economics. She is the member of The Institute of Internal Auditors and has over 10 years experience in finance and control management.

Ms. ZHANG Kui (張葵), aged 46, the national finance director of the Group, Ms. Zhang joined our Group in March 2005, she is responsible for establishing the group's financial management accounting system, formulate financial system, and is responsible for the financial accounting for the group, and the formulation and implementation of tax planning. Before joining the group, Ms. Zhang worked for domestic large state-owned enterprises, responsible for the financial work in the state-owned enterprises for more than 10 years, she has rich experience in finance management and tax planning. Ms. Zhang graduated from Jinan university with a bachelor's degree in management, she is a senior accountant, certified tax agent and obtained management institute of occupational qualification registered in China. She has more than 20 years of experience in the financial and tax management.

Independent Auditor's Report

Grant Thornton
致同

To the members of Modern Media Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Modern Media Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 167, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Impairment assessment on goodwill *Refer to the Note 17 in the consolidated financial statements*	
The Group's goodwill arising from business combinations amounted to RMB32,041,000 as at 31 December 2017 and was allocated to the Group's cash generating units ("CGU") identified according to operating segment. Management has tested such goodwill for impairment as at 31 December 2017, and concluded that there is no impairment. This conclusion was based on value-in-use calculations with key assumptions of average annual and long term growth rate of revenue, gross margin and discount rate that required significant management judgement. The impairment test of this asset is considered to be a key audit matter due to the magnitude of the goodwill balance and the significant judgement made by the management in estimating the recoverable amount of the goodwill.	Our procedures in relation to management's impairment assessment included: — Assessing the valuation methodology and the appropriateness of the key assumptions used to estimate the value-in-use; — Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; — Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and — Subjecting the key assumptions to sensitivity analysis. We found the key assumptions made by management in relation to the value-in-use calculations to be reasonable based on available evidence. The key assumptions have been appropriately disclosed in Note 17.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the 2017 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

23 March 2018

Lee Lai Lan, Joyce
Practising Certificate No.: P06409

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

Year ended 31 December 2017 HK$'000		Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
523,252	**Revenue**	5	435,608	518,926
(304,296)	Cost of sales	8	(253,327)	(255,828)
218,956	**Gross profit**		182,281	263,098
7,499	Other income	6	6,243	4,066
(1,470)	Other gains/(losses) — net	7	(1,224)	(1,805)
(120,649)	Distribution expenses	8	(100,440)	(125,460)
(143,207)	Administrative expenses	8	(119,220)	(127,701)
(38,871)	**Operating (loss)/profit**		(32,360)	12,198
234	Finance income		195	340
(5,178)	Finance expenses		(4,311)	(5,527)
(4,944)	**Finance expenses — net**	10	(4,116)	(5,187)
(1,154)	Share of post-tax losses of associates	11(b)	(961)	(194)
(20)	Share of post-tax losses of a joint venture	11(b)	(17)	(330)
(44,989)	**(Loss)/Profit before income tax**		(37,454)	6,487
(2,804)	Income tax expense	12	(2,334)	(3,474)
(47,793)	**(Loss)/Profit for the year**		(39,788)	3,013
	Other comprehensive income			
	Items that may be subsequently reclassified to profit or loss			
(11,748)	Exchange differences on translation of financial statements of overseas subsidiaries		(9,780)	5,580
	Items that will not be subsequently reclassified to profit or loss			
26,370	Revaluation surplus upon transfer from property, plant and equipment to investment properties		21,953	–
(6,592)	Tax effect relating to revaluation surplus upon transfer from property, plant and equipment to investment properties		(5,488)	–
8,030	**Other comprehensive income for the year**		6,685	5,580
(39,763)	**Total comprehensive (loss)/income for the year**		(33,103)	8,593
	(Loss)/Profit attributable to:			
(45,962)	— Owners of the Company		(38,264)	3,085
(1,831)	— Non-controlling interests		(1,524)	(72)
(47,793)			(39,788)	3,013
	Total comprehensive (loss)/income attributable to:			
(37,550)	— Owners of the Company		(31,261)	8,665
(2,213)	— Non-controlling interests		(1,842)	(72)
(39,763)			(33,103)	8,593
	(Loss)/Earnings per share attributable to the owners of the Company for the year (expressed in RMB per share)			
(HK$0.1061)	Basic (loss)/earnings per share	13(a)	(RMB0.0883)	RMB0.0071
(HK$0.1061)	Diluted (loss)/earnings per share	13(b)	(RMB0.0883)	RMB0.0071

The notes on pages 87 to 167 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

As at 31 December 2017 HK$'000		Note	As at 31 December 2017 RMB'000	2016 RMB'000
	ASSETS AND LIABILITIES			
	Non-current assets			
179,860	Property, plant and equipment	14	149,734	180,266
43,952	Investment properties	15	36,590	–
57,605	Intangible assets	16	47,956	33,168
38,488	Goodwill	17	32,041	30,032
7,468	Software development in progress	18	6,217	7,863
10,843	Interests in associates	11(b)	9,027	10,916
–	Interest in a joint venture	11(b)	–	17
6,812	Available-for-sale financial assets	19	5,671	5,710
1,166	Deferred income tax assets	28	971	1,163
346,194			288,207	269,135
	Current assets			
328,420	Trade and other receivables	20	273,410	319,584
–	Available-for-sale financial assets	19	–	21,150
39,865	Inventories	21	33,188	25,490
70,132	Cash and cash equivalents	22	58,385	57,259
438,417			364,983	423,483
	Current liabilities			
78,591	Trade and other payables	26	65,427	83,852
9,761	Current income tax liabilities		8,126	8,642
115,488	Borrowings	27	96,144	100,563
203,840			169,697	193,057
234,577	**Net current assets**		195,286	230,426
580,771	**Total assets less current liabilities**		483,493	499,561
	Non-current liabilities			
–	Borrowings	27	-	26,642
8,299	Deferred income tax liabilities	28	6,909	1,406
8,299			6,909	28,048
572,472	**Net assets**		476,584	471,513

Consolidated Statement of Financial Position *(continued)*

As at 31 December 2017

As at 31 December 2017 HK$'000		Note	As at 31 December 2017 RMB'000	2016 RMB'000
	EQUITY			
	Equity attributable to owners of the Company			
4,628	Share capital	23	3,853	3,853
238,499	Reserves	25	198,551	196,849
273,575	Retained earnings		227,751	271,215
516,702			430,155	471,917
55,770	**Non-controlling interests**		46,429	(404)
572,472	**Total equity**		476,584	471,513

The consolidated financial statements on pages 82 to 167 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf.

Shao Zhong	**Mok Chun Ho, Neil**
Director	*Director*

The notes on pages 87 to 167 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share capital (Note 23) RMB'000	Shares held for Share Award Scheme* (Note 24) RMB'000	Employee share-based compensation reserve* (Note 24) RMB'000	Share premium* (Note 25(c)(i)) RMB'000	Other reserves* (Note 25(c)(iv)) RMB'000	Statutory surplus reserves* (Note 25(c)(ii)) RMB'000	Property revaluation reserve* (Note 25(c)(v)) RMB'000	Translation reserve* (Note 25(c)(iii)) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		3,852	(5,925)	120	145,183	4,259	47,387	–	(1,556)	279,005	472,325	(332)	471,993
Total comprehensive income/(loss) for the year													
Profit/(loss) for the year		–	–	–	–	–	–	–	–	3,085	3,085	(72)	3,013
Other comprehensive income for the year													
Currency translation differences		–	–	–	–	–	–	–	5,580	–	5,580	–	5,580
Total comprehensive income/(loss)		–	–	–	–	–	–	–	5,580	3,085	8,665	(72)	8,593
Transactions with owners													
Employees share award scheme													
– Dividends reinvested to the scheme	24(a)	–	98	–	–	–	–	–	–	–	98	–	98
Employees share-based compensation	24(b)	1	–	(120)	119	–	–	–	–	–	–	–	–
Dividends paid	25(b)	–	–	–	–	–	–	–	–	(9,171)	(9,171)	–	(9,171)
Appropriation to statutory surplus reserve		–	–	–	–	–	1,704	–	–	(1,704)	–	–	–
Total transactions with owners		1	98	(120)	119	–	1,704	–	–	(10,875)	(9,073)	–	(9,073)
Balance at 31 December 2016		3,853	(5,827)	–	145,302	4,259	49,091	–	4,024	271,215	471,917	(404)	471,513
Balance at 1 January 2017		3,853	(5,827)	–	145,302	4,259	49,091	–	4,024	271,215	471,917	(404)	471,513
Total comprehensive income/(loss) for the year													
Loss for the year		–	–	–	–	–	–	–	–	(38,264)	(38,264)	(1,524)	(39,788)
Other comprehensive income/(loss) for the year													
Currency translation differences		–	–	–	–	–	–	–	(9,462)	–	(9,462)	(318)	(9,780)
Revaluation surplus upon transfer from property, plant and equipment to investment properties, net of tax		–	–	–	–	–	–	16,465	–	–	16,465	–	16,465
Total comprehensive income/(loss)		–	–	–	–	–	–	16,465	(9,462)	(38,264)	(31,261)	(1,842)	(33,103)
Transactions with owners													
Employees share award scheme	24(a)	–	(982)	–	–	–	–	–	–	–	(982)	–	(982)
– Purchased		–	(1,081)	–	–	–	–	–	–	–	(1,081)	–	(1,081)
– Vested		–	58	–	–	–	–	–	–	–	58	–	58
– Dividends reinvested to the scheme		–	41	–	–	–	–	–	–	–	41	–	41
Dividends paid	25(b)	–	–	–	–	–	–	–	–	(3,894)	(3,894)	–	(3,894)
Appropriation to statutory surplus reserve		–	–	–	–	–	1,306	–	–	(1,306)	–	–	-
Change in equity interest in a subsidiary	33	–	–	–	–	(5,625)	–	–	–	–	(5,625)	48,675	43,050
Total transactions with owners		–	(982)	–	–	(5,625)	1,306	–	–	(5,200)	(10,501)	48,675	38,174
Balance at 31 December 2017		3,853	(6,809)	–	145,302	(1,366)	50,397	16,465	(5,438)	227,751	430,155	46,429	476,584

* These reserves accounts comprise the Group's reserves of RMB198,551,000 in the consolidated statement of financial position as at 31 December 2017 (2016: RMB196,849,000).

The notes on pages 87 to 167 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

Year ended 31 December 2017 HK$'000		Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
	Cash flow from operating activities			
8,604	Cash generated from operations	29(a)	7,163	24,241
(3,165)	Income tax paid		(2,635)	(2,000)
5,439	**Net cash generated from operating activities**		4,528	22,241
	Cash flow from investing activities			
234	Interests received	10	195	340
(17,432)	Purchase of property, plant and equipment	14	(14,512)	(2,206)
(11,821)	Purchase of intangible assets	16	(9,841)	(30)
(15,584)	Payments for software development in progress	18	(12,974)	(12,116)
10,937	Proceeds from disposal of property, plant and equipment	29(b)	9,105	460
(3,026)	Payment for acquisition of a subsidiary, net of cash and cash equivalents acquired	32(b)	(2,519)	–
–	Purchase of commercial bank financing products classified as available-for-sale financial assets	19	–	(21,150)
25,405	Redemption of commercial bank financial products classified as available-for-sale financial assets	19	21,150	20,000
–	Refund from payment of equity investment		–	520
458	Proceeds from disposal of interest in a joint venture	11(b)	381	–
(2,299)	Advance to an associate	11(b)	(1,914)	–
(13,128)	**Net cash used in investing activities**		(10,929)	(14,182)
	Cash flows from financing activities			
110,466	Proceeds from borrowings		91,963	77,112
(142,031)	Repayments of borrowings		(118,241)	(74,767)
(1,298)	Purchase of shares for the Share Award Scheme	24(a)	(1,081)	–
(4,628)	Dividends paid to owners of the Company		(3,853)	(9,073)
(5,178)	Interests paid	10	(4,311)	(5,527)
51,711	Proceeds from partial disposal of equity interest in a subsidiary	33	43,050	–
9,042	**Net cash from/(used in) financing activities**		7,527	(12,255)
1,353	**Net increase/(decrease) in cash and cash equivalents**		1,126	(4,196)
68,779	Cash and cash equivalents at beginning of year	22	57,259	61,455
70,132	**Cash and cash equivalents at end of year**	22	58,385	57,259

The notes on pages 87 to 167 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL 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 Company 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 A2, 4/F, Exhibition Centre, No. 1 Software Park Road, Zhuhai City, Guangdong Province, the PRC and 7/F, Global Trade Square, No. 21 Wong Chuk Hang Road, Aberdeen, Hong Kong respectively; and its registered office is at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 9 September 2009.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the provision of multi-media advertising services, printing and distribution of magazines, provision of advertising-related services, artwork trading and related services. As detailed in Note 32(b), the Group has further expanded its print media and art business through the acquisition of a restaurant during the year ended 31 December 2017.

As mentioned in the Company's annual report for the year ended 31 December 2016 and in connection with other previous announcements concerning the proposed spin-off (the "Proposed Spin-off") of the digital and television businesses of the Group, the Company decided to postpone the application of the Proposed Spin-Off to a later stage.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and investment properties which are stated at fair value, and certain financial assets and liabilities which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

The amounts in the consolidated financial statements are presented in RMB. The translation into Hong Kong dollars ("HK$") of the consolidated financial statements as of, and for the year ended 31 December 2017 is for convenience only and has been made at the rate of HK$1.2012 to RMB1. This translation should not be construed as a representation that the RMB amounts actually represented have been, or could be, converted into HK$ at this or any other rate.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

In the current year, the Group has applied for the first time the following new and amended IFRSs issued by the IASB, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014–2016 Cycle	Disclosure of Interests in Other Entities

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented:

Amendments to IAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in Note 34 to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 34, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New and amended standards issued but are not effective and not yet adopted by the Group

At the date of authorisation of these consolidated financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS 2014–2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2014–2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective date not yet determined
[4] Effective for annual periods beginning on or after 1 January 2021

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Group's financial statements.

<u>IFRS 9 "Financial Instruments"</u>

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New and amended standards issued but are not effective and not yet adopted by the Group (continued)

IFRS 9 "Financial Instruments" (continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas that are expected to be affected:

- the impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables. For trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing components.

- the measurement of equity investments at cost less impairment. All such investments will instead be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition to IFRS 9. This will affect the Group's investment in unlisted equity securities (see Note 19) which the Group intends to hold beyond 1 January 2018. Currently, the Group is not intending to elect to present changes in the equity investment in profit or loss but will account for its equity investments at fair value through other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New and amended standards issued but are not effective and not yet adopted by the Group (continued)

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 and the related clarification to IFRS 15 (hereinafter referred to as "IFRS 15") presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations. IFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

Variable consideration

The Group provides a right of return, discounts or rebates for some of the advertising contracts with customers and sale of magazines and periodicals. Currently, the Group recognises revenue from the sale of services and goods measured at fair value of the consideration received or receivable, net of discounts, rebates and returns. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Under IFRS 15, a transaction price is considered variable if a customer is provided with a right of return, discounts or rebates. The Group is required to estimate the amount of consideration to which it will be entitled in advertising contracts and the sale of magazines and periodicals and the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises its revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New and amended standards issued but are not effective and not yet adopted by the Group (continued)

IFRS 16 "Leases"

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset.

After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases of various buildings which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 31(b), as at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB50,681,000 for various buildings, the majority of which is payable either within 1 year or between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New and amended standards issued but are not effective and not yet adopted by the Group (continued)

IFRS 16 "Leases" *(continued)*

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt IFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations (continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates *(continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using the equity method" in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is HK$. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the development and operation of the Group during the years are within the PRC, the Group determined to present the consolidated financial statements in RMB, unless otherwise stated.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income or expenses". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gains or losses — net".

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for the consolidated statement of comprehensive income are translated at average exchange rates; and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Property, plant and equipment

Buildings held for own use comprise the Group's offices in the PRC and Hong Kong. Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings held for own use	40 to 50 years
Office equipment	3 to 5 years
Furniture and fixtures	3 to 10 years
Motor vehicles	5 to 10 years

Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 10 years from the date of completion, and the unexpired terms of the leases.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains or losses — net" in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost and subsequently at fair value, unless its fair value cannot be reliably determined at that time.

If an owner-occupied property becomes an investment property, the Group applies the policy stated under "Property, plant and equipment" up to the date of change in use. Any difference at that date between the carrying amount of the property and the fair value is recognised in property revaluation reserve.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised at the reporting date reflect the prevailing market conditions at the reporting date.

Gains or losses arising from either changes in the fair value or the sale of an investment property are included in profit or loss in the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Software and mobile applications

Costs associated with maintaining software and mobile applications are recognised as an expense as incurred. 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Intangible assets *(continued)*

(b) Software and mobile applications *(continued)*

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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

Software and mobile applications development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

(c) Other intangible assets

Other intangible assets mainly include publication rights, customer relationship and trademark, domain and IT platform. These intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the costs of these intangible assets over their estimated useful lives.

(d) Amortisation

Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives, as follows:

	Years
Publication rights	6 to 7 years
Customer relationship	3 to 5 years
Trademark, domain and IT platform	3 to 10 years
Software and mobile applications	3 to 5 years
Others	15 years

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated statement of financial position (Notes 20 and 22).

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less an identified impairment losses at each reporting date subsequent to initial recognition.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Financial assets *(continued)*

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(d) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Financial assets *(continued)*

(d) Impairment of financial assets *(continued)*

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments and commercial bank financing products, a significant or prolonged decline in the fair value of the investment below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2.12 Inventories

Inventories are artworks intended for sale and goods held in a retail store of the Group and stated at the lower of cost and net realisable value. Cost for artworks includes expenditures that is directly attributable to the acquisition of the items. Cost for goods held in a retail store is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for magazines, periodicals and artworks sold and advertising related services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Current and deferred income tax *(continued)*

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Current and deferred income tax *(continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

(b) Housing funds, medical insurance and other social insurance

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

(c) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(d) Employee leave entitlements

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Employee benefits *(continued)*

(e) Share-based payments

(i) Equity-settled share-based payment

The Group established an equity-settled share-based compensation plan to recognise the contribution made by the directors and employees of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options at the grant day.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(ii) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity, in the parent entity accounts.

2.21 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Provisions and contingent liabilities *(continued)*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for sale of services and goods, stated net of discounts, returns and sales taxes and surcharges.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **Advertising income**

Revenue from advertising contracts, net of rebates, sales taxes and related surcharges, are recognised upon the publication of the magazines and periodicals, and mobile applications, available to public in which the advertisement is placed.

(b) **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 been transferred. The estimated returns of magazines and periodicals are debited to sales, which is estimated based on accumulated experience.

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.

(c) **TV production, event and service income**

TV production, event and service income is recognised when the relevant services are rendered to customers, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of total service to be provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue recognition *(continued)*

(d) **Sales of artworks and goods**

Sales of artworks and goods in retail stores are recognised when a group entity has transferred the risks and rewards of the artworks and goods to its customers.

(e) **Revenue from restaurant operation**

Revenue from restaurant operation is recognised at the point of sales to customers.

(f) **Interest income**

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

(g) **Dividend income**

Dividend income is recognised when the right to receive payment is established.

2.23 Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Rental income receivable (net of any incentives granted to the lessee) are recognised in the statement of comprehensive income on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.26 Related parties

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

(a) the party is a person or a close member of that person's family and if that person:

- (i) has control or joint control over of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

- (i) the entity and the Group are members of the same group.
- (ii) 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).
- (iii) the entity and the Group are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a)(i) 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).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

3. FINANCIAL RISK MANAGEMENT

3.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities.

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Financial assets		
Available-for-sale financial assets	5,671	26,860
Trade and other receivables	237,928	280,289
Cash and cash equivalents	58,385	57,259
	301,984	364,408
Financial liabilities		
Trade and other payables	41,991	50,079
Borrowings	96,144	127,205
	138,135	177,284

3.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge certain risk exposures for the years ended 31 December 2017 and 2016.

(a) Market risk

(i) Currency risk

The Group mainly operates in the PRC and Hong Kong, and majority of the transactions are denominated and settled in RMB or HK$, being the functional currency of the group entities to which the transactions relate. Currency risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. As at 31 December 2017 and 2016, the Group did not have significant foreign currency risk from its operations.

The Group has not entered into any financial instruments for hedging purpose for the years ended 31 December 2017 and 2016. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents, the Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 27.

As at 31 December 2017, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net loss for the year would have been RMB863,000 higher/lower (2016: net profit for the year would have been RMB252,000 lower/higher) as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure of recoverability problem.

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

In respect of trade and other receivables, the Group established policies in place to ensure that sales of services and products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Please refer to Note 20 for the aging analysis. Management makes periodic collectability assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

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

	As at 31 December	
	2017	2016
From the Group's largest customer	12%	11%
From the Group's five largest customers	39%	42%

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.

(c) 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.

Analysed below is the Group's remaining contractual maturities for its financial liabilities. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Specifically, borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the lenders choosing to exercise their rights. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Total contractual undiscounted cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017					
Trade and other payables	41,991	41,991	–	–	–
Borrowings	96,144	96,144	–	–	–
	138,135	138,135	–	–	–
As at 31 December 2016					
Trade and other payables	50,079	50,079	–	–	–
Borrowings	130,594	100,563	2,185	7,173	20,673
	180,673	150,642	2,185	7,173	20,673

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

Secured bank borrowings of RMB63,144,000 with a repayment on demand clause (2016: other secured borrowings of RMB14,734,000) are included in the "Less than 1 year" time band in the above maturity analysis. Taking into account the Group's financial position, the management does not consider that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The management believes that the term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The maturity analysis of the Group's financial liabilities by expected repayment dates is summarised as follows. The amounts include interest payments computed using contractual rates.

	Total contractual undiscounted cash flows RMB'000	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2017					
Trade and other payables	41,991	41,991	–	–	–
Borrowings	102,573	61,214	3,141	9,424	28,794
	144,564	103,205	3,141	9,424	28,794
As at 31 December 2016					
Trade and other payables	50,079	50,079	–	–	–
Borrowings	134,509	86,741	3,190	10,827	33,751
	184,588	136,820	3,190	10,827	33,751

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group also monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debt.

The gearing ratios as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Total borrowings (Note 27)	96,144	127,205
Less: Cash and cash equivalents (Note 22)	(58,385)	(57,259)
Net debt	37,759	69,946
Total equity	476,584	471,513
Total capital	514,343	541,459
Gearing ratio	7.34%	12.92%

The decrease in gearing ratio during the year ended 31 December 2017 was mainly due to the decrease in borrowings.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 and 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

As at 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets — commercial bank financing products	–	–	–	–

As at 31 December 2016	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets — commercial bank financing products	–	–	21,150	21,150

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainties

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment assessment of goodwill

The Group tested annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Notes 2.9 and 2.10. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs. Please refer to Note 17 for detailed information of impairment assessment of goodwill.

(b) Impairment for 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. Please refer to Note 20 for detailed information of impairment for trade receivables.

(c) Deferred tax arising from investment properties measured at fair value

There is a rebuttable presumption that the carrying amount of the investment property that is measured using the fair value model in IAS 40 "Investment Property" will be recovered entirely through sales. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. The management determines the investment properties are recovered through use and details of deferred tax liabilities are set out in Note 28.

5. SEGMENT INFORMATION

The chief operating decision-makers mainly include the senior executive management of the Company. They review the Group's internal reports in order to determine the operating segments, assess performance and allocate resources based on these reports.

Senior executive management considers the business from a business perspective, and assesses the performance of the business segment based on revenue and adjusted EBITDA without allocation of share of profit/losses of investments accounted for using equity method, fair value adjustment to investment properties and available-for-sale financial assets, loss on Step Acquisition, gain on disposal of a joint venture and other unallocated head office and corporate expenses.

The amount provided to senior executive management with respect to total assets is measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of segment. Investment properties, investments in associates and a joint venture, available-for-sale financial assets, deferred tax assets, other receivables, cash and cash equivalents and other corporate assets are not considered to be segment assets but rather are managed by the treasury function.

The Group has two (2016: two) reportable segments as described below, which are the Group's strategic business units. The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and profit of each operating segment. Segment information below is presented in a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment. The following describes the operations in each of the Group's reportable segments:

- Print media and art: this segment engages in the sale of advertising space in the publication of and the distribution of the Group's magazines and periodicals; and artwork trading and auction, art exhibition and education and revenue from restaurant operation.

- Digital media and television: this segment is a digital media platform in which the Group publishes multiple digital media products and sells advertising spaces; and engages in the production of customised contents for brand advertisers.

5. SEGMENT INFORMATION *(continued)*

(a) Revenue

The revenue by segment for the years ended 31 December 2017 and 2016 were set out as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Reportable segment		
— Print media and art	316,503	432,993
— Digital media and television	122,080	95,168
	438,583	528,161
Revenue derived from other operations		
— Exhibition, event arrangement and others (i)	8,851	5,293
Less: sales taxes and other surcharges	(11,826)	(14,528)
	435,608	518,926

(i) This represented the revenue derived from the provision of exhibition and event arrangement services to customers.

(b) Adjusted EBITDA

The adjusted EBITDA of the Group for the years ended 31 December 2017 and 2016 were set out as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Print media and art	(22,372)	24,571
Digital media and television	10,802	11,596
	(11,570)	36,167
Revenue derived from other operations (Note 5(a))	8,851	5,293
Depreciation	(14,592)	(13,212)
Amortisation	(9,303)	(8,802)
Finance expenses — net	(4,116)	(5,187)
Loss on Step Acquisition (Note 32(a))	(2,574)	–
Share of post-tax losses of associates	(961)	(194)
Share of post-tax losses of a joint venture	(17)	(330)
Gain on disposal of a joint venture	381	–
Impairment losses on available-for-sale financial assets	–	(1,000)
Fair value adjustment to investment properties	850	–
Unallocated head office and corporate expenses	(4,403)	(6,248)
(Loss)/Profit before income tax	(37,454)	6,487

5. SEGMENT INFORMATION *(continued)*

(b) Adjusted EBITDA *(continued)*

	Year ended 31 December 2017		
Business segment	Depreciation RMB'000	Amortisation RMB'000	Finance expenses – net RMB'000
Print media and art	14,058	172	4,142
Digital media and television	534	9,131	(26)
	14,592	9,303	4,116

	Year ended 31 December 2016		
Business segment	Depreciation RMB'000	Amortisation RMB'000	Finance expenses – net RMB'000
Print media and art	11,656	1,373	5,187
Digital media and television	1,556	7,429	–
	13,212	8,802	5,187

(c) Total assets

	As at 31 December	
Business segment	2017 RMB'000	2016 RMB'000
Print media and art	340,416	386,929
Digital media and television	125,555	125,447
	465,971	512,376
Corporate and unallocated assets	2,452	2,693
Investment properties	36,590	–
Interests in associates	9,027	10,916
Interest in a joint venture	–	17
Available-for-sale financial assets	5,671	26,860
Deferred income tax assets	971	1,163
Other receivables	74,123	81,334
Cash and cash equivalents	58,385	57,259
Total assets	653,190	692,618

5. SEGMENT INFORMATION *(continued)*

(d) Geographic information

The geographic location of the Group's property, plant and equipment, investment properties, intangible assets, goodwill, software development in progress and interests in associates and a joint venture ("specified non-current assets") were mainly in the PRC, Hong Kong and the United Kingdom (the "UK") as at 31 December 2017 and 2016.

The geographical location of the specified non-current assets is based on (i) the physical location of the asset, in the case of property, plant and equipment and investment properties; (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.

Specified non-current assets by geographical location as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Hong Kong	109,919	120,290
The PRC	165,465	141,972
The UK	6,181	–
	281,565	262,262

Revenue by geographical location for the year ended 31 December 2017 and 2016 was as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
The PRC	395,492	477,790
Hong Kong	36,704	41,136
The UK	3,412	–
	435,608	518,926

During the year ended 31 December 2017, there was one customer (2016: two) with whom transactions have exceeded 10% of the Group's revenue. The revenue generated from this customer from print media and art and digital media and television segment amounted to RMB52,056,000 (2016: each of these two single customers from print media and art and digital media and television segment amounted to RMB55,886,000 and RMB55,842,000).

6. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
PRC government subsidy (i)	5,851	3,138
Others	392	928
	6,243	4,066

(i) PRC government subsidy represented subsidies received from local governmental authorities by several subsidiaries of the Group.

7. OTHER GAINS/(LOSSES) — NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Available-for-sale financial assets:		
— Impairment losses (Note 19)	–	(1,000)
Fair value adjustment to investment properties (Note 15)	850	–
Loss on Step Acquisition (Note 32(a))	(2,574)	–
Gain on disposal of a joint venture (Note 11(b))	381	–
Net gains/(losses) on disposal of property, plant and equipment (Note 29(b))	55	(228)
Exchange gains/(losses)	64	(577)
	(1,224)	(1,805)

8. EXPENSES BY NATURE

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Cost of artworks sold	773	–
Employee benefit expenses (Note 9)	166,679	200,194
Advertising production expenses	139,332	108,047
Printing costs of magazines and periodicals	23,091	36,466
Marketing and promotion expenses	38,999	45,333
Office rental costs	22,078	24,412
License fee	22,545	23,463
Office expenses including utility costs	15,986	20,510
Travelling and communication expenses	7,592	11,902
Depreciation of plant, property and equipment (Note 14)	14,746	15,180
Amortisation of intangible assets (Note 16)	9,303	8,802
Professional and consultation expenses	5,389	5,345
Auditor's remuneration		
— Audit services	1,318	980
— Non-audit services	295	281
Stamp duties and other taxes	755	626
Impairment losses on trade receivables (Note 20)	1,123	1,023
Professional fees for the Proposed Spin-off (Note 1)	2,319	5,148
Other expenses	664	1,277
Total cost of sales, distribution and administrative expenses	472,987	508,989

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries, bonus and allowances	144,699	170,947
Social security costs	28,270	36,084
Termination benefits	6,626	5,279
Employee share-based compensation	58	–
	179,653	212,310
Less: amount capitalised to software development in progress (Note 18)	(12,974)	(12,116)
	166,679	200,194

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 included five (2016: four) directors whose emoluments were reflected in the analysis shown in Note 38. The emoluments payable to the remaining one individual during the year ended 31 December 2016 were as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries and allowances	–	1,674

The emoluments fell within the following bands:

	Year ended 31 December	
	2017	2016
Emolument band:		
HK$1,500,001 to HK$2,000,000	–	1

Saved as disclosed in Note 38(a), no director or these highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

10. FINANCE EXPENSES — NET

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Finance income:		
— Interest income derived from bank deposits	195	340
Finance expenses:		
— Interest expense on borrowings wholly repayable within 5 years	(3,341)	(4,167)
— Interest expense on borrowings wholly repayable after 5 years	(970)	(1,360)
	(4,311)	(5,527)
Finance expenses — net	(4,116)	(5,187)

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(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 with limited liability, particulars of which as at 31 December 2017 and 2016 were set out below:

Company name	Note	Place of incorporation (and operation) and date of incorporation	Issued and paid up capital	Effective interests held by the Company as at 31 December		Direct/ Indirect	Principal activities
				2017	2016		
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	70%#	100%	Indirect	Provision of digital publishing business
Modern Media Company Limited		Hong Kong 6 May 1998	HK$1,000,000	100%	100%	Indirect	Provision of advertising agency 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%	Indirect	Publication of magazines in the PRC, provision of advertising agency services, retail sales of imported books and planning of literary arts activities and exhibitions
City Howwhy Limited		Hong Kong 15 May 2000	HK$2	100%	100%	Indirect	Publication of magazines in Hong Kong
Modern Mobile Digital Media Company Limited		Hong Kong 4 December 2000	HK$2	70%#	100%	Indirect	Provision of digital publishing business
Modern Media (Zhuhai) Technology Co., Ltd. * (現代傳播（珠海）科技有限公司)	(i)	The PRC 13 April 2006	HK$68,000,000	100%	100%	Indirect	Research and development, provision of advertising and consultancy service
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%	Indirect	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	70%#	100%	Indirect	Provision of website development business

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(a) Subsidiaries *(continued)*

Company name	Note	Place of incorporation (and operation) and date of incorporation	Issued and paid up capital	Effective interests held by the Company as at 31 December 2017	2016	Direct/ Indirect	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	70%#	100%	Indirect	Provision of management and consultation 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	70%#	100%	Indirect	Provision of website development business
Shanghai Yizhi Advertising Co., Ltd. * (上海意致廣告有限公司)	(ii)	The PRC 22 February 2012	RMB500,000	70%#	100%	Indirect	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	70%#	100%	Indirect	Provision of advertising agency services
Kashi Yazhimei Culture Media Co., Ltd. * (喀什雅致美文化傳播有限公司)	(ii)	The PRC 17 June 2014	RMB30,000,000	100%	100%	Indirect	Provision of advertising agency services
Modern Art International Trading Ltd.		Hong Kong 10 August 2015	HK$1,000,000	100%	100%	Indirect	Artwork trading
Shanghai Play Bear Commerce Co., Ltd. * (上海頑熊商貿有限公司)	(ii)	The PRC 19 January 2015	RMB2,000,000	60%	60%	Indirect	Provision of selling toys and groceries
Beijing Camart Technology Co., Ltd (北京拍藏科技有限公司) (“Beijing Camart”)**	(ii)	The PRC 27 February 2015	RMB1,000,000	70%# (Note 32(a))	N/A	Indirect	Online auction of artworks
Modern Digital Holdings Limited		Cayman Islands 4 February 2015	HK$14,286	70% (Note 33)	100%	Indirect	Investment holding

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(a) Subsidiaries *(continued)*

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

** Pursuant to the shareholding entrustment agreement dated 27 March 2015, Mr. Shao Zhong ("Mr. Shao") is entrusted as registered shareholder of the investment on behalf of the Group (Note 35(e)).

Being subsidiaries of Modern Digital Holdings Limited, please refer to Note 33 for the deemed disposal during the year ended 31 December 2017.

(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.

(iii) Historically, PRC rules and regulations restricted foreign ownership of companies in certain industries. The Group has been conducting its operations in these industries through subsidiaries controlled by contractual agreements which are ultimately wholly-owned by Mr. Shao.

As of the date of these financial statements, the Group does not have direct equity interests in these PRC Operational Entities (as defined in the prospectus of the Company dated 28 August 2009 and the announcement of the Company dated 21 September 2011). However, the Group has implemented a series of Contractual Arrangements (as defined in the prospectus of the Company dated 28 August 2009 and the announcement of the Company dated 21 September 2011) 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

- The Group is authorised to exercise its power over to govern the financial and operating policies in the PRC Operational Entities as if it were the ultimate beneficial owner 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.

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(a) Subsidiaries *(continued)*

Set out below was the summarised financial information, before intragroup eliminations, for Modern Digital Holding Limited and its subsidiaries, a subgroup with material non-controlling interests (NCI):

	As at 31 December 2017 RMB'000
Proportion of ownership interests and voting rights held by the NCI	30%
Current assets	147,712
Non-current assets	82,575
Current liabilities	(73,201)
Net assets	157,086
Carrying amount of NCI	47,106

	Year ended 31 December 2017 RMB'000
Revenue	124,761
Total expenses	(121,734)
Profit for the year	3,027
Other comprehensive loss for the year	(2,982)
Total comprehensive income for the year	45
Loss attributable to NCI for the period from 27 July 2017 to 31 December 2017 (Note 33)	(1,251)
Total comprehensive loss attributable to NCI for the period from 27 July 2017 to 31 December 2017 (Note 33)	(1,569)
Net cash flows from operating activities	37,672
Net cash flows used in investing activities	(37,542)
Net cash flows from financing activities	15,358
Net increase in cash and cash equivalents	15,488

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(b) Investments accounted for using the equity method

The amounts recognised in the consolidated statement of financial position were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Carrying amounts of		
— Associates	9,027	10,916
— A joint venture	–	17
	9,027	10,933

The amounts recognised in the consolidated statement of comprehensive income were as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Share of losses of		
— Associates	961	194
— A joint venture	17	330
	978	524

Interests in associates

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Investment in associates		
At 1 January	10,027	4,333
Transfer	–	5,480
Share of post-tax losses	(961)	(194)
Currency translation differences	(268)	408
Step Acquisition of a subsidiary (Note 32(a))	(2,574)	–
At 31 December	6,224	10,027
Advance to an associate	2,803	889
	9,027	10,916

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(b) Investments accounted for using the equity method *(continued)*

Interests in associates *(continued)*

During the year ended 31 December 2016, prior year prepayments for equity investments in Beijing Camart and Shanghai Youxian Information Technology Co., Ltd. of RMB2,480,000 and RMB3,000,000 respectively have been transferred to interests in associates.

Advance to an associate included in investments in associates is unsecured, interest free and is not recoverable within twelve months from the end of the reporting period and are therefore shown in the consolidated statement of financial position as non-current.

The particulars of the associates of the Group, which are unlisted, were set out as follows:

Company name	Place of business/country of incorporation	Paid-up capital	Attributable equity interests to the Group as at 31 December		Principal activities
			2017	2016	
Chongqing Yubao Culture Media Co., Ltd. (重慶渝報文化傳播有限公司) ("Chongqing Yubao")	Chongqing, the PRC	RMB10,000,000	40%	40%	Wholesaling and retailing, provision of advertising, publication and media service
Shanghai Youxian Information Technology Co., Ltd (上海友閑信息科技有限公司) ("Shanghai Youxian")	Shanghai, the PRC	RMB1,000,000	20%	20%	Online trading of the second-hand concert or opera tickets
Photo Shanghai Company Limited ("Photo Shanghai")	Hong Kong	HK$100,000	19%	19%	Provision of photos exhibition service

The Group retains significant influence over Photo Shanghai through the power to nominate representative on their board.

As at 31 December 2017, impairment tests were performed by comparing the attributable carrying amount of the interests in associates with the respective recoverable amounts. The recoverable amounts were based on estimated discounted cash flow. No impairment was recorded.

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(b) Investments accounted for using the equity method *(continued)*

Interests in associates *(continued)*

Set out below was the summarised financial information for the significant associate, Chongqing Yubao, which was accounted for using the equity method.

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Current assets		
Cash and cash equivalents	212	259
Other current assets (excluding cash and cash equivalents)	9,306	11,857
Total current assets	9,518	12,116
Current liabilities	(818)	(1,886)
Non-current assets	130	175
Net assets	8,830	10,405

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue	453	3,241
Cost of sales	(861)	(2,631)
Loss before income tax	(1,576)	(427)
Income tax expense	–	–
Net loss	(1,576)	(427)
Other comprehensive income	–	–
Total comprehensive loss	(1,576)	(427)

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(b) Investments accounted for using the equity method *(continued)*

Interests in associates *(continued)*

The information of Shanghai Youxian and Photo Shanghai (2016: Beijing Camart, Shanghai Youxian and Photo Shanghai), which are not material associates of the Group is as below:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Group's aggregate share of net assets of associates	2,692	5,865
Group's share of loss for the year	331	23
Other comprehensive income	–	–
Total comprehensive loss	331	23

Interest in a joint venture

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
At 1 January	17	347
Share of post-tax losses	(17)	(330)
At 31 December	–	17

The particulars of the joint venture of the Group were set out as below:

Company name	Place of business/country of incorporation	Paid-up capital	Attributable equity interests to the Group as at 31 December 2017	2016	Principal activities
Hangzhou Shili Cultural Media Co., Ltd. ("Hangzhou Shili") (杭州實力文化傳播有限公司)	Hangzhou, the PRC	RMB15,000,000	–	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. In accordance with the 49% of the paid in 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 a full provision for impairment was made in prior years.

11. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

(b) Investments accounted for using the equity method *(continued)*

Interest in a joint venture *(continued)*

Pursuant to a sale and purchase agreement entered into between the Group and a shareholder of Hangzhou Shili on 26 September 2017, the Group disposed its 49% equity interest of Hangzhou Shili at a consideration of RMB381,000. Compared with the nil carrying amount of investment in a joint venture, a gain on disposal of RMB381,000 has been recognised in the consolidated statement of comprehensive income.

There was no contingent liability relating to the Group's interests in its joint venture.

Set out below is the summarised financial information for Hangzhou Shili which was accounted for using the equity method.

	As at 31 December 2016 RMB'000
Current assets	
Cash and cash equivalents	322
Other current assets (excluding cash and cash equivalents)	872
Total current assets	1,194
Current liabilities	(1,228)
Non-current assets	69
Net assets	35

	Period from 1 January 2017 to 26 September 2017 (Date of disposal) RMB'000	Year ended 31 December 2016 RMB'000
Revenue	1,679	2,179
Cost of sales	(746)	(1,793)
Loss before income tax	(43)	(673)
Income tax expense	–	–
Net loss	(43)	(673)
Other comprehensive income	–	–
Total comprehensive loss	(43)	(673)

12. INCOME TAX EXPENSE

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Current income tax		
— Hong Kong profits tax	42	305
— PRC Corporate income tax	2,292	2,569
Adjustments in respect of prior years	(215)	523
	2,119	3,397
Deferred income tax (Note 28)	215	77
Income tax expense	2,334	3,474

The difference between the actual income tax charge in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
(Loss)/Profit before income tax	(37,454)	6,487
Tax calculated at statutory tax rate of 25%	(9,364)	1,622
Tax effect of:		
Effect of differential tax rate on income	790	(88)
Expenses not deductible for tax purpose	2,665	2,233
Income not subject to tax	(3,156)	(6,597)
Utilisation of previously unrecognised tax losses	(53)	(586)
Tax losses for which no deferred tax assets recognised	9,893	4,632
Income tax on dividends and service charge	1,529	1,604
Adjustment in respect of prior years	(215)	523
Tax effect of associates and joint venture's results	245	131
Income tax expense	2,334	3,474

(a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

(b) Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit arising in Hong Kong during the year.

12. INCOME TAX EXPENSE *(continued)*

(c) The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable corporate tax rate on the estimated assessable profits based on existing legislations, interpretations and practices. The corporate income tax rate applicable to the Group's subsidiaries located in the PRC is 25%.

(d) During the year ended 31 December 2017, income not subject to tax mainly represented the net profit of RMB11,241,000 (2016: RMB16,838,000) derived by Kashi Yazhimei Culture Media Co., Ltd., which is a subsidiary incorporated in Xinjiang, the PRC and entitled to an income tax exemption period from 1 January 2015 to 31 December 2019.

(e) During the year ended 31 December 2017, current income tax on profits for the year included a provision of RMB1,529,000 (2016: RMB1,604,000) 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.

13. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share was computed by dividing the net (loss)/profit attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the respective years.

	Year ended 31 December	
	2017	2016
(Loss)/Profit attributable to owners of the Company (RMB'000)	(38,264)	3,085
Issued ordinary shares as at 1 January (thousands)	438,353	438,282
Weighted average number of shares held for the Share Award Scheme (thousands) (Note 24(a))	(5,024)	(4,579)
Weighted average number of shares awarded in respect of Linkchic acquisition (thousands) (Note 24(b))	–	30
Weighted average number of ordinary shares in issue (thousands)	433,329	433,733
Basic (loss)/earnings per share (RMB per share)	(0.0883)	0.0071

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share were same as the basic (loss)/earnings per share as there was no dilutive event existed during year ended 31 December 2017 and 2016.

14. PROPERTY, PLANT AND EQUIPMENT

	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
At 1 January 2016						
Cost	148,381	51,198	41,432	31,488	16,774	289,273
Accumulated depreciation	(10,898)	(39,313)	(30,863)	(9,425)	(11,935)	(102,434)
Net book amount	137,483	11,885	10,569	22,063	4,839	186,839
Year ended 31 December 2016						
Opening net book amount	137,483	11,885	10,569	22,063	4,839	186,839
Additions	–	489	1,080	637	–	2,206
Disposals (Note 29(b))	–	(342)	(310)	(16)	(20)	(688)
Depreciation charge (Note 8)	(3,104)	(4,256)	(3,388)	(2,971)	(1,461)	(15,180)
Currency translation differences	5,866	229	35	834	125	7,089
Closing net book amount	140,245	8,005	7,986	20,547	3,483	180,266
At 31 December 2016 and 1 January 2017						
Cost	154,471	49,919	39,536	32,454	16,709	293,089
Accumulated depreciation	(14,226)	(41,914)	(31,550)	(11,907)	(13,226)	(112,823)
Net book amount	140,245	8,005	7,986	20,547	3,483	180,266
Year ended 31 December 2017						
Opening net book amount	140,245	8,005	7,986	20,547	3,483	180,266
Additions	–	13,100	884	528	–	14,512
Disposals (Note 29(b))	(7,511)	(19)	(289)	(1,231)	–	(9,050)
Depreciation charge (Note 8)	(2,905)	(3,710)	(4,414)	(2,875)	(842)	(14,746)
Transfer to investment properties upon change of use (Note 15)	(13,787)	–	–	–	–	(13,787)
Currency translation differences	(6,278)	(291)	(23)	(760)	(109)	(7,461)
Closing net book amount	109,764	17,085	4,144	16,209	2,532	149,734
At 31 December 2017						
Cost	125,545	62,626	34,763	29,723	16,440	269,097
Accumulated depreciation	(15,781)	(45,541)	(30,619)	(13,514)	(13,908)	(119,363)
Net book amount	109,764	17,085	4,144	16,209	2,532	149,734

As at 31 December 2017, certain buildings in the PRC with a carrying amount of RMB17,198,000 (2016: RMB31,655,000) and the property in Hong Kong with a carrying amount of HK$98,038,000, equivalent to RMB81,614,000 (2016: HK$100,318,000, equivalent to RMB89,868,000) were pledged as collaterals for the Group's bank borrowings, amounted to RMB73,144,000 (2016: bank and other borrowings amounted to RMB88,463,000) (Notes 27(b) & (c)).

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Administrative expenses	12,985	13,327
Distribution expenses	896	957
Cost of sales	865	896
	14,746	15,180

15. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Non-current assets – at fair value		
Opening balance at 1 January	–	–
Transfer from property, plant and equipment (Note 14)	35,740	–
Change in fair value of investment properties recognised in profit or loss	850	–
Closing balance at 31 December	36,590	–

The Group has used presumption that the carrying amount of the investment properties would be recovered through use which is held within a business model to hold for rental, provision for deferred tax is made on revaluation of investment properties using income tax rate.

As at 31 December 2017, certain buildings in the PRC with a carrying amount of RMB36,590,000 (2016: Nil) were pledged as collaterals for the Groups bank borrowings, amounted to RMB23,000,000 (2016: Nil) (Notes 27(b)).

The table below analyses the Group's investment properties carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

15. INVESTMENT PROPERTIES *(continued)*

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2017				
Recurring fair value measurements:				
— Investment properties	–	–	36,590	36,590
As at 31 December 2016				
Recurring fair value measurements:				
— Investment properties	–	–	–	–

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2017.

The Group's investment properties were revalued at the date of transfer from property, plant and equipment and at 31 December 2017 by independent professionally qualified valuers, DTZ Debenham Tie Leung Shenzhen Valuation Company Limited ("DTZ"), who have the recent experience in the location and category of properties being valued. The fair value measurement is based on the properties' highest and best use, which does not differ from their actual use.

The fair value of investment properties is determined using the direct capitalisation method by capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties. The fair value measurement is positively correlated to the market monthly rental rate and factors adjustment, and negatively correlated to capitalisation rate.

	Valuation techniques	**Significant unobservable inputs**	**Range As at 31 December** 2017	2016
Investment properties	Direct capitalisation method	Market monthly rental rate taking into account of individual factors such as location, environment, age, accessibility, floor, size, etc. (RMB/sq.m)	204–217	–
		Capitalisation rate of reversionary income	6.5%	–

Relationships of unobservable inputs to fair value are as follows:

— The higher the monthly rental rate per square meter, the higher the fair value.

— The higher the capitalisation rate, the higher the fair value.

Gains on changes in fair value of investment properties of RMB850,000 (2016: Nil) recognised in the consolidated statement of comprehensive income arise from the investment properties held at the end of the reporting period.

16. INTANGIBLE ASSETS

	Publishing rights RMB'000	Customer relationship RMB'000	Trademark, domain and IT platform RMB'000	Software and mobile applications RMB'000	Others RMB'000	Total RMB'000
At 1January 2016						
Cost	3,000	10,382	7,829	38,053	2,510	61,774
Accumulated amortisation	(3,000)	(9,598)	(3,878)	(18,457)	(1,245)	(36,178)
Net book amount	–	784	3,951	19,596	1,265	25,596
Year ended 31 December 2016						
Opening net book amount	–	784	3,951	19,596	1,265	25,596
Transferred from software development in progress (Note 18)	–	–	–	16,224	–	16,224
Other additions	–	–	–	–	30	30
Amortisation charge (Note 8)	–	(628)	(621)	(7,458)	(95)	(8,802)
Currency translation differences	–	–	–	76	44	120
Closing net book amount	–	156	3,330	28,438	1,244	33,168
At 31 December 2016 and 1 January 2017						
Cost	3,000	10,382	7,829	54,353	2,620	78,184
Accumulated amortisation	(3,000)	(10,226)	(4,499)	(25,915)	(1,376)	(45,016)
Net book amount	–	156	3,330	28,438	1,244	33,168
Year ended 31 December 2017						
Opening net book amount	–	156	3,330	28,438	1,244	33,168
Transferred from software development in progress (Note 18)	–	–	–	14,620	–	14,620
Other additions	–	–	6,757	1,264	1,820	9,841
Amortisation charge (Note 8)	–	(156)	(922)	(8,054)	(171)	(9,303)
Currency translation differences	–	–	(238)	(32)	(100)	(370)
Closing net book amount	–	–	8,927	36,236	2,793	47,956
At 31 December 2017						
Cost	3,000	10,382	14,335	68,951	4,320	100,988
Accumulated amortisation	(3,000)	(10,382)	(5,408)	(32,715)	(1,527)	(53,032)
Net book amount	–	–	8,927	36,236	2,793	47,956

16. INTANGIBLE ASSETS (continued)

The amortisation of intangible assets has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Administrative expenses	7,815	7,458
Cost of sales	1,488	1,344
	9,303	8,802

17. GOODWILL

	2017 RMB'000	2016 RMB'000
At 1 January	30,032	30,032
Acquisition of a subsidiary (Note 32(b))	2,009	–
At 31 December	32,041	30,032

Goodwill is allocated to the Group's CGU identified according to country of operation and operating segment. A segment level summary of goodwill is presented below:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Digital media and television — the PRC	30,032	30,032
Print media and art — the PRC	2,009	–
	32,041	30,032

The recoverable amounts of goodwill relating to the digital media and television and print media and art in the PRC were determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Group expected cash flow beyond the five-year period would be similar to that of the fifth year based on existing scale of operation. Cash flows beyond the five-year period were extrapolated using 3% and 3% growth rates for digital media and television and print media and art respectively.

17. GOODWILL (continued)

The key assumptions used for value-in-use calculations as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017	2016
Digital media and television		
Average annual growth rate of revenue during the next five-year period	25%	27%
Gross margin (% of revenue)	59%	58%
Discount rate	19.1%	18.8%
Long term growth rate	3%	3%
Print media and art		
Average annual growth rate of revenue during the next five-year period	14%	–
Gross margin (% of revenue)	61%	–
Discount rate	17.3%	–
Long term growth rate	3%	–

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2017.

18. SOFTWARE DEVELOPMENT IN PROGRESS

	Software development in progress RMB'000
At 1 January 2016	11,971
Expenditure incurred on software development	12,116
Transferred to intangible assets (Note 16)	(16,224)
At 31 December 2016 and 1 January 2017	7,863
Expenditure incurred on software development	12,974
Transferred to intangible assets (Note 16)	(14,620)
At 31 December 2017	6,217

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Unlisted equity investments, at cost	10,671	10,710
Less: provision for impairment	(5,000)	(5,000)
Unlisted equity investments — net (a)	5,671	5,710
Commercial bank financing products, at fair value (b)	–	21,150
	5,671	26,860

(a) 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. Tianjin Holiday is principally engaged in the publication of newspaper in the PRC. The Group does not have significant influence nor participate in the policy-making process and the operating and financial decisions of Tianjin Holiday.

At 31 December 2016, the Group performed an impairment assessment on its interest in Tianjin Holiday based on the latest available financial information and an impairment loss of RMB1,000,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2016.

During the year ended 31 December 2016, the Group acquired 7.14% equity interest in Beijing Qingchuangtou Investment Company ("Beijing Qingchuangtou") from an independent third party for a consideration of RMB550,000. Beijing Qingchuangtou is principally engaged in investment management and consultation. Pursuant to the shareholding entrustment agreement dated 25 November 2015, Mr. Shao is entrusted as registered shareholder of the investment on behalf of the Group (Note 35(e)).

As at 31 December 2017 and 2016, another unlisted equity investment with original consideration of RMB2,000,000 was fully impaired.

(b) As at 31 December 2016, the Group purchased commercial bank financing products of RMB21,150,000. This investment has no fixed maturity term and can be redeemed on the second day after submitting the redemption application to the bank. As at 31 December 2016, the carrying amount of this investment approximated the fair value. The Group redeemed all the commercial bank financing products during the year ended 31 December 2017.

20. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables (a)		
— Due from third parties	202,910	236,766
Less: provision for impairment of receivables (e)	(3,623)	(2,500)
Trade receivables — net	199,287	234,266
Value-added tax recoverable	16,341	19,016
Prepayments	19,141	20,279
Printing deposits	14,611	16,808
Rental, utility and other deposits	8,426	10,780
Advances and loans to employees (c)	9,950	10,583
Amounts due from related parties (c)	416	497
Others	5,238	7,355
	273,410	319,584

As at 31 December 2017 and 2016, the fair value of the trade and other receivables of the Group approximated their carrying amounts.

(a) The aging analysis of trade receivables, based on invoice dates, before provision for impairment, as at 31 December 2017 and 2016 was as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables, gross		
— Within 30 days	55,887	96,861
— Over 31 days and within 90 days	71,038	57,222
— Over 90 days and within 180 days	37,147	52,759
— Over 180 days	38,838	29,924
	202,910	236,766

The credit period granted to its advertising and circulation customers is between 30 to 180 days (with a certain limited number of customers granted a credit period of 270 days). No interest is charged on the outstanding trade receivables.

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

20. TRADE AND OTHER RECEIVABLES *(continued)*

(b) As at 31 December 2017, trade receivables of RMB92,289,000 (2016: RMB94,802,000) were past due but not impaired. 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. The aging analysis of these trade receivables past due but not impaired at respective reporting dates was as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Within 30 days past due	25,470	31,973
Over 31 days and within 90 days past due	27,556	30,310
Over 90 days past due	39,263	32,519
	92,289	94,802

(c) The amounts due from related parties and advance and loans to employees are unsecured, interest-free and repayable on demand.

(d) The carrying amounts of the Group's trade and other receivables were denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
RMB	252,150	297,567
HKD	18,954	19,431
USD	1,466	544
Others	840	2,042
	273,410	319,584

(e) Movements in provision for impairment of trade receivables were as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	2,500	1,477
Provision for impairment (Note 8)	1,123	1,023
At 31 December	3,623	2,500

Provision for impairment of RMB3,623,000 (2016:RMB2,500,000) has been made for estimated irrecoverable amounts due from advertising customers. This provision for impairment has been determined by reference to past default experience and management judgement. The ageing of these impaired trade receivables was over 180 days as at 31 December 2017 and 2016.

21. INVENTORIES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Artworks	32,809	25,425
Other goods	379	65
	33,188	25,490

22. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Cash at bank and in hand	58,385	57,259

All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates.

The carrying amounts of the Group's cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
RMB	51,382	55,140
HKD	6,904	2,057
Others	99	62
	58,385	57,259

23. SHARE CAPITAL

Details of the authorised and issued share capital of the Company were set out as follows:

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital RMB'000
At 1 January 2016	438,282	3,852
Shares issued — employee share award scheme (Note 24(b))	71	1
At 31 December 2016, 1 January 2017 and 31 December 2017	438,353	3,853

24. SHARE-BASED COMPENSATION

(a) 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 eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries in accordance with the provisions of the Share Award Scheme. The maximum number of Awarded Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Award Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital (“Issued Share Capital”) of the Company from time to time. The total number of Awarded Shares which may be issued upon the exercise of all options to be granted under the Share Award Scheme and any other share option schemes of the Company as may from time to time be adopted by the Company as permitted under the Listing Rules initially shall not, in aggregate, exceed 10% of the Issued Share Capital as at the date of adoption of the Share Award Scheme (and thereafter, if refreshed, shall not exceed 10% of the Issued Share Capital as at the date of approval of the refreshed limit by the Shareholders). The total number of Awarded Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Awarded Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

Pursuant to the Share Award Scheme, the Remuneration Committee of the Company shall select the eligible participants 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 eligible participants under the Share Award Scheme.

In October 2017, 100,000 shares (2016: Nil) were awarded to an eligible participant under the Share Award Scheme. These awarded shares were vested immediately and the share-based payment expense of RMB58,000 was charged to profit or loss for the year ended 31 December 2017 based on the fair value of shares at grant date (2016: Nil).

24. SHARE-BASED COMPENSATION *(continued)*

(a) Share award scheme *(continued)*

Movements in shares under the Company's Share Award Scheme were as follows:

	Year ended 31 December			
	2017		2016	
	Number of shares held	Value RMB'000	Number of shares held	Value RMB'000
At 1 January	4,579,000	5,827	4,579,000	5,925
Shares purchased during the year	1,218,000	1,081	–	–
Dividend reinvested to the scheme	–	(41)	–	(98)
Shares vested during the year	(100,000)	(58)	–	–
At 31 December	5,697,000	6,809	4,579,000	5,827

(b) Shares awarded in respect of Linkchic acquisition

During the year ended 31 December 2013, an aggregate of 1,076,000 shares of the Company were agreed to be issued to eligible participants following the acquisition of 每城美客（北京）網絡科技有限公司 ("Linkchic"). These awarded shares do not constitute as part of the purchase consideration in respect of the acquisition and they were awarded to the eligible participants for their continuing services in Linkchic, which are to be vested subject to vesting condition over service periods of one to three years from the date of award.

On 30 July 2016, 70,659 shares were issued and vested to the eligible participants for nil consideration. The share capital and share premium were credited by RMB605 and RMB119,592, respectively, based on the fair value of HK$2.32 per share at the grant date. There were 541 shares forfeited during the year ended 31 December 2016. Therefore there was no outstanding unvested awarded shares as at 31 December 2017 and 2016 in respect to the acquisition of Linkchic.

Movements in the number of shares outstanding were as follows:

	Year ended 31 December	
	2017	2016
At 1 January	–	71,200
Forfeited	–	(541)
Exercised	–	(70,659)
At 31 December	–	–

25. 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 was set out in the consolidated statement of changes in equity.

(b) Dividends

(i) Proposed dividends payable to equity shareholders of the Company attributable to the year:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Final dividends proposed after the end of the financial year of nil (2016: HK1.00 cent (equivalent to RMB0.89 cents)) per ordinary share	–	3,894

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Final dividends in respect of the previous financial year of HK1.00 cent, equivalent to RMB0.89 cents per share (2016: HK2.50 cents, equivalent to RMB2.09 cents per share)	3,894	9,171

(c) Nature and purpose of reserves on the consolidated statement of changes in equity

(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.

25. RESERVES AND DIVIDENDS *(continued)*

(c) Nature and purpose of reserves on the consolidated statement of changes in equity *(continued)*

(ii) Statutory surplus reserves

In accordance with the relevant laws and regulations in the PRC and the articles of association of the companies incorporated in the PRC of the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve before distributing the net profit. When the balance of the statutory surplus reserve reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities. For the year ended 31 December 2017, RMB1,306,000 (2016: RMB1,704,000) were appropriated to the statutory surplus reserve from net profits of certain PRC subsidiaries.

(iii) Translation reserve

Translation 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 2.6.

(iv) Other reserves

Other reserves comprise (i) the aggregate amount of paid-in capital of the PRC Operational Entities after elimination of investments in subsidiaries; and (ii) the difference between the consideration paid/received for the acquisition/dilution of non-controlling interests and the carrying amount of non-controlling interests at the transaction date, less the foreign exchange movements on translation of those subsidiaries attributable to the non-controlling interests.

(v) Property revaluation reserve

Revaluation reserve arises from transfer of owner-occupied properties to investment properties.

During the year ended 31 December 2017, certain properties of the Group previously held for own use were transferred to investment properties and a revaluation surplus, net of tax, of RMB16,465,000 was credited to property revaluation reserve to account for the difference between the carrying amounts and the fair values of the properties at the date of transfer, determined using direct capitalisation method by independent professionally qualified valuer.

The property revaluation reserve of the Group is not distributable as at 31 December 2017.

26. TRADE AND OTHER PAYABLES

(a) An analysis of the nature of trade and other payables of the Group was as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade payables:		
— Due to third parties	29,321	37,126
Other payables:		
— Advances from customers	16,452	20,137
— Accrued taxes other than income tax (i)	6,984	6,676
— Accrued expenses	4,812	6,333
— Advertising and promotion expenses payable	2,692	4,858
— Salaries, wages, bonus and benefits payable	838	627
— Other liabilities	4,328	8,095
	65,427	83,852

(i) Accrued taxes other than income tax mainly consisted of value-added tax payables, business tax payables and related surcharges, and individual income tax payables. The revenue of the Group is subject to turnover taxes in the PRC and Taiwan.

As at 31 December 2017 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair values approximated their carrying amounts due to their short maturities.

(b) An aging analysis of trade payables of the Group, based on invoice dates, was as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade payables		
— Within 30 days	14,747	17,111
— Over 31 days and within 90 days	7,105	11,903
— Over 91 days and within 180 days	2,488	3,907
— Over 180 days	4,981	4,205
	29,321	37,126

26. TRADE AND OTHER PAYABLES *(continued)*

(c) As at 31 December 2017 and 2016, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
RMB	59,521	77,810
HKD	2,820	3,677
USD	671	470
EUR	1,626	1,737
Others	789	158
	65,427	83,852

27. BORROWINGS

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Current		
— Unsecured bank borrowings (a)	–	38,742
— Secured bank borrowings (b)	96,144	47,087
— Other secured borrowing (c)	–	14,734
	96,144	100,563
Non-current		
— Secured bank borrowings (b)	–	26,642
	96,144	127,205

(a) As at 31 December 2016, unsecured bank borrowings of RMB11,000,000 were guaranteed by Mr. Shao and Zhuhai Technology, an indirect wholly-owned subsidiary of the Group; and unsecured bank borrowings of RMB4,000,000 were guaranteed by Mr. Shao; and unsecured bank borrowings of RMB10,305,000 was guaranteed by the Company. The remaining unsecured bank borrowings of RMB13,437,000 were credit loans. The Group settled all the unsecured bank borrowings during the year ended 31 December 2017.

27. BORROWINGS (continued)

(b) As at 31 December 2017, secured bank borrowings of RMB96,144,000 (2016: RMB73,729,000) were secured by certain properties of the Group in PRC with a carrying amount of RMB53,788,000 (2016: RMB31,655,000) (Notes 14 & 15) and certain properties in Hong Kong with carrying amount of HK$98,038,000, equivalent to RMB81,614,000 (2016: HK$100,318,000, equivalent to RMB89,868,000) (Note 14), among which RMB33,000,000 (2016: RMB4,000,000) were guaranteed by Mr. Shao.

(c) As at 31 December 2016, other secured borrowing of RMB14,734,000, borrowed from a developer of a property in Hong Kong, was secured by certain properties with a carrying amount of RMB89,868,000, equivalent to HK$100,318,000 (also included as pledged assets for bank borrowings as mentioned in Note 27(b)) and was also guaranteed by Mr. Shao and Ms. Zhong Yuanhong (Note 35(a)). The Group settled all of the other secured borrowing during the year ended 31 December 2017.

(d) The Group's borrowings were denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Borrowings		
— RMB	33,000	60,000
— HKD	63,144	67,205
	96,144	127,205

27. BORROWINGS *(continued)*

(e) The contractual maturity of borrowings based on the date which is the earliest possible date that the lenders could be required to repay was as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
On demand or within 1 year	96,144	100,563
Between 1 and 2 years	–	2,242
Between 2 and 5 years	–	6,710
Over 5 years	–	17,690
	96,144	127,205

(f) The effective interest rates of the Group's borrowings at the reporting date were as follows:

	As at 31 December			
	2017		2016	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Variable rate borrowings:				
— Secured bank borrowings	6.00%	23,000	5.66%	6,710
Fixed rate borrowings:				
— Unsecured bank borrowings	–	–	3.57%	38,742
— Secured bank borrowings	3.36%	73,144	4.18%	67,019
— Other secured borrowing	–	–	5.00%	14,734
		73,144		120,495
		96,144		127,205

(g) As at 31 December 2017, the Group has unused facilities of RMB1,665,000 (2016: RMB17,271,000).

28. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Reconciliation to the consolidated statement of financial position:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Deferred income tax assets:		
— to be recovered within 12 months	195	233
— to be recovered after more than 12 months	776	930
	971	1,163
Deferred income tax liabilities:		
— to be settled after more than 12 months	(6,909)	(1,406)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, were as follows:

Deferred income tax assets	Tax losses to be carried forward RMB'000	Depreciation in excess of the related depreciation allowances RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	2,886	300	483	3,669
Currency translation differences	99	–	–	99
(Charged)/Credited to profit or loss	(2,985)	(104)	406	(2,683)
At 31 December 2016 and 1 January 2017	–	196	889	1,085
Currency translation differences	(39)	–	–	(39)
Credited/(Charged) to profit or loss	102	(104)	–	(2)
At 31 December 2017	63	92	889	1,044

The Group has estimated tax losses arising in Hong Kong of approximately RMB2,286,000 (2016: approximately RMB2,807,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has estimated tax losses arising in the PRC of approximately RMB68,932,000 (2016: approximately RMB33,764,000) that will expire five years after the relevant accounting year end for offsetting against future taxable profits of the companies in which the losses arose. In accordance with the accounting policy set out in Note 2.19, the Group has not recognised deferred tax assets arising in Hong Kong of approximately RMB377,000 (2016: approximately RMB463,000) and deferred tax assets arising in the PRC of approximately RMB17,233,000 (2016: approximately RMB8,441,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

28. DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

Deferred income tax liabilities	Depreciation allowances in excess of the related depreciation RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2016	3,950	–	3,950
Currency translation differences	(16)	–	(16)
Credited to profit or loss	(2,606)	–	(2,606)
At 31 December 2016 and 1 January 2017	1,328	–	1,328
Currency translation differences	(47)	–	(47)
Charged to other comprehensive income	–	5,488	5,488
Charged to profit or loss	–	213	213
At 31 December 2017	1,281	5,701	6,982

At 31 December 2017, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB37,153,000 (2016: RMB33,051,000). Deferred tax liabilities of RMB1,858,000 (2016: RMB1,653,000) 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 be reinvested in their operation rather than remitting them to the Company in the foreseeable future.

The Group's investment properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sales. The Group has measured the deferred tax relating to the temporary differences of these investment properties using the tax rates enacted or substantively enacted at the end of the reporting periods.

29. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of (loss)/profit before income tax to net cash generated from operations

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
(Loss)/profit before income tax	(37,454)	6,487
Adjustments for:		
Depreciation of property, plant and equipment (Note 14)	14,746	15,180
Amortisation of intangible assets (Note 16)	9,303	8,802
Provision for impairment of trade receivables (Note 20)	1,123	1,023
Finance income (Note 10)	(195)	(340)
Finance expenses (Note 10)	4,311	5,527
Share of losses of associates (Note 11(b))	961	194
Share of losses of a joint venture (Note 11(b))	17	330
Impairment losses of available-for-sale financial assets (Note 19)	–	1,000
Net (gains)/losses on disposal of property, plant and equipment (Note 7)	(55)	228
Change in fair value of investment properties (Note 15)	(850)	–
Gain on disposal of a joint venture (Note 11(b))	(381)	–
Loss on Step Acquisition (Note 32(a))	2,574	–
Employee share-based payment	58	–
Changes in working capital:		
Decrease/(Increase) in trade and other receivables	40,546	(14,201)
Increase in inventories	(7,254)	(7,161)
(Decrease)/Increase in trade and other payables	(20,287)	7,172
Cash generated from operations	7,163	24,241

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprised:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Net book amount (Note 14)	9,050	688
Net gains/(losses) on disposal of property, plant and equipment (Note 7)	55	(228)
Proceeds from disposal of property, plant and equipment	9,105	460

30. CONTINGENCIES

Save as disclosed in Note 33, the Group had no material contingent liabilities as at 31 December 2017 and 2016.

31. COMMITMENTS

(a) Capital commitments

As at 31 December, the Group had the following capital commitments:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Capital expenditure contracted but not provided for:		
— investment in an associate	–	1,800

(b) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Operating leases expiring:		
— Within 1 year	22,759	21,159
— After 1 year but within 5 years	27,922	18,532
	50,681	39,691

(c) Other commitments

The Group entered into licensing agreements with the publishing partners to obtain the exclusive rights for the sale of advertising spaces in and the distribution of the magazines. As at 31 December 2017, the total future minimum payments under non-cancellable licensing agreements were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Licensing agreement expiring:		
— Within 1 year	22,706	22,372
— After 1 year but within 5 years	62,478	75,997
— After 5 years	5,119	7,043
	90,303	105,412

32. BUSINESS COMBINATIONS

(a) Step acquisition of a subsidiary

Pursuant to a sale and purchase agreement entered into between the Group and the other shareholders of Beijing Camart on 7 December 2017, the Group acquired the remaining 80% issued share capital of Beijing Camart at nil consideration (the "Step Acquisition"). Beijing Camart is incorporated in the PRC with limited liability and is engaged in online auction of artworks. As a result, the Group's interest in Beijing Camart increased from 20% to 100% and Beijing Camart became an indirect wholly-owned subsidiary of the Company.

The Step Acquisition was completed on 7 December 2017. The Group continued to share the results of Beijing Camart under the equity method of accounting during the period from 1 January 2017 to the completion date.

The Group accordingly remeasure the fair value of its pre-existing 20% equity interest in Beijing Camart at the completion date and recognised the resulting loss of RMB2,574,000 in the consolidated statement of comprehensive income under "other gains or losses — net".

There was no significant amounts of fair value of identifiable assets acquired and liabilities assumed from the Step Acquisition.

The management estimates that the Step Acquisition would not have significant impact to the Group's revenue and results if the Step Acquisition had occurred on 1 January 2017.

(b) Acquisition of a subsidiary

On 22 September 2017, the Group acquired the entire issued share capital of Shanghai Houyuan Cafe Co., Ltd. ("Shanghai Cafe") from independent third parties at a consideration of RMB2,550,000 (the "Acquisition"). Shanghai Cafe is incorporated in the PRC with limited liability and is engaged in operation of restaurant.

The Acquisition was completed on 30 September 2017 and Shanghai Cafe became an indirect wholly-owned subsidiary of the Company.

32. BUSINESS COMBINATIONS *(continued)*

(b) Acquisition of a subsidiary *(continued)*

The cash flow and the fair value of net assets/liabilities acquired are provided below:

	RMB'000
Trade and other receivables	101
Inventories	444
Cash and cash equivalents	31
Trade and other payables	(35)
Net assets acquired	541
Goodwill (Note 17)	2,009
Total cash consideration	2,550
Cash and cash equivalents acquired	(31)
Cash outflow on acquisition	2,519

Included in the loss for the year is the loss of RMB110,000 attributable to the additional business generated by Shanghai Cafe. Revenue for the year includes RMB908,000 in respect of Shanghai Cafe.

If the acquisition had occurred on 1 January 2017, the Group's revenue would have been increased by RMB2,367,000 and loss for the year would have been decreased by RMB106,000 for the year ended 31 December 2017. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

33. DEEMED DISPOSAL OF PARTIAL INTERESTS IN A SUBSIDIARY

On 27 July 2017, Modern Digital Holding Limited ("MDHL"), a subsidiary of the Company, has completed the allotment of (i) 428,570 shares to an independent third party, Hong Kong Septwolves Invest-Holding Limited ("Septwolves Invest"), at the subscription price of RMB43,050,000 and (ii) 1 share to a subsidiary of the Company, at a subscription price of RMB36,600,000 (collectively, the "Subscriptions"). The Group retains 70% of the equity interest in MDHL after the partial disposal. Details of the Subscriptions have been set out in the Company's announcements dated 10 March 2017, 22 March 2017 and 4 August 2017.

The Subscriptions were accounted for as an equity transaction, whereby adjustments were made to reflect an increase in non-controlling interests of approximately RMB48,675,000 and a decrease in other reserve of approximately RMB5,625,000 at the date of issue of the new shares in MDHL.

Pursuant to the investment agreement, the Group undertakes to Septwolves Invest that the expected revenue after tax of MDHL and its subsidiaries for each of the years ending 31 December 2017, 2018 and 2019 shall be not less than HK$140 million, HK$162 million, and HK$186 million, respectively (the "Revenue Guarantee"). Septwolves Invest has the option (the "Put Option") to require the Group to acquire all the MDHL shares then held by them, on or before 30 April 2020, if MDHL fails to achieve the Revenue Guarantee. The purchase price shall be equivalent to the aggregate of (a) the total investment amount of Septwolves Invest and (b) a compensation amount to be agreed between the parties. No provision has been made by the Group with respect to the Put Option as at 31 December 2017.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Borrowings RMB'000
As at 1 January 2017	127,205
Cash-flows:	
— Repayments	(118,241)
— Proceeds	91,963
— Interests paid	(4,311)
Non-cash:	
— Interests accrued	4,311
— Exchange adjustments	(4,783)
As at 31 December 2017	96,144

35. RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2017 and 2016, and balances arising from related party transactions as at 31 December 2017 and 2016.

(a) Name and relationship with related parties

Name of related parties	Relationship with the Group
Mr. Shao	Founder/Controlling Shareholder/Director of the Group
Dr. Cheng Chi Kong	A director of the Company (Resigned on 26 August 2017)
Ms. Zhong Yuanhong	A director of a subsidiary of the Group

(b) Transactions with related parties

In addition to the transactions and balances disclosed in Note 27, the Group entered into the following related party transactions during the years ended 31 December 2017 and 2016:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Rental expenses (i)	4,606	13,749
Advertising income (ii)	2,334	4,869

35. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties *(continued)*

(i) This represented rental expenses payable to an entity controlled by a close family member of Dr. Cheng Chi Kong for the lease of office premises in Shanghai. It was charged at a pre-determined rate mutually agreed, which was based on the market rent rates.

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

(c) Receivables from related parties included in trade and other receivables

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Mr. Shao	416	–
Receivables derived from advertising income (i)	–	497

(i) These represent receivables from entities controlled by a close family member of Dr. Cheng Chi Kong.

(d) Key management compensation

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Basic salaries, allowances, benefits in kind and Share Award Scheme	20,844	19,645
Retirement scheme contributions	785	1,569
	21,629	21,214

(e) Investments held by Mr. Shao on behalf of the Group

As at 31 December 2017 and 2016, pursuant to the shareholding entrustment agreements entered into between Mr. Shao and the Group in 2015, Mr. Shao is entrusted as registered shareholder of the investments in Beijing Camart (Note 11(a)) and Beijing Qingchuangtou (Note 19) on behalf of the Group.

36. 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 purposes 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 24(a)). 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 were included in the Group's consolidated statement of financial position and the Company's shares held by the Modern Media Employee Share Trust were presented as a deduction in equity as "Shares held for Share Award Scheme".

As at 31 December 2017, the Company had contributed RMB8,805,000 (2016: RMB8,805,000) in the Modern Media Employee Share Trust for shares and the amount was recorded as "Investment in subsidiaries" in the Company's statement of financial position.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2017 HK$'000		Note	As at 31 December 2017 RMB'000	2016 RMB'000
	ASSETS AND LIABILITIES			
	Non-current assets			
10,577	Investments in subsidiaries	36	8,805	8,805
	Current assets			
10,243	Other receivables		8,527	9,243
163,812	Amounts due from subsidiaries		136,375	189,619
137	Cash and cash equivalents		114	245
174,192			145,016	199,107
	Current liabilities			
387	Other payables		322	861
–	Borrowings		–	15,525
9,381	Amounts due to subsidiaries		7,810	5,585
9,768			8,132	21,971
164,424	**Net current assets**		136,884	177,136
175,001	**Total assets less current liabilities**		145,689	185,941
	Non-current liabilities			
–	Borrowings		–	26,652
175,001	**Net assets**		145,689	159,289
	EQUITY			
	Equity attributable to owners of the Company			
4,628	Share capital		3,853	3,853
170,373	Reserves	(a)	141,836	155,436
175,001	**Total equity**		145,689	159,289

The statement of financial position of the Company was approved by the Board of Directors on 23 March 2018 and was signed on its behalf.

Shao Zhong
Director

Mok Chun Ho, Neil
Director

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

(a) Reserve movements of the Company

	Share premium RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2016	145,183	(3,883)	7,785	149,085
Dividends paid (Note 25(b))	–	–	(9,171)	(9,171)
Employee share-based compensation	119	–	–	119
Profit for the year	–	–	5,756	5,756
Other comprehensive income	–	9,647	–	9,647
As at 31 December 2016 and 1 January 2017	145,302	5,764	4,370	155,436
Dividends paid (Note 25(b))	–	–	(3,894)	(3,894)
Profit for the year	–	–	1,587	1,587
Other comprehensive loss	–	(11,293)	–	(11,293)
As at 31 December 2017	145,302	(5,529)	2,063	141,836

38. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The total remuneration of directors and the chief executives for the years ended 31 December 2017 and 2016 was set out as follows:

	Year ended 31 December 2017 RMB'000	2016 RMB'000
Directors		
Salaries and allowances	13,083	12,826
Directors' fees	858	827
Retirement scheme contributions	620	1,219
Termination benefits	1,826	–
	16,387	14,872

(i) No individual has waived or agreed to waive any emoluments.

38. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) Directors' and chief executives' emoluments *(continued)*

(ii) The remuneration of every director and chief executive for the year ended 31 December 2017 was set out as follows:

	Fees RMB'000	Salaries RMB'000	Housing allowance RMB'000	Estimated money value of medical insurance and other social insurance RMB'000	Employer's contribution to retirement plan RMB'000	Termination benefits RMB'000	Total RMB'000
Year ended 31 December 2017							
Executive Directors							
Mr. Shao Zhong #	–	2,419	876	44	44	–	3,383
Mr. Wong Shing Fat****	–	2,836	400	114	–	1,826	5,176
Mr. Mok Chun Ho, Neil	–	1,368	180	55	–	–	1,603
Ms. Yang Ying	–	1,191	600	91	88	–	1,970
Mr. Li Jian	–	745	360	95	82	–	1,282
Mr. Deroche Alain*	–	1,488	620	–	7	–	2,115
Non-executive Director							
Dr. Cheng Chi Kong***	132	–	–	–	–	–	132
Independent non-executive Directors							
Mr. Jiang Nanchun	132	–	–	–	–	–	132
Mr. Wang Shi	132	–	–	–	–	–	132
Mr. Au-Yeung Kwong Wah	330	–	–	–	–	–	330
Dr. Gao Hao**	132	–	–	–	–	–	132
Total	858	10,047	3,036	399	221	1,826	16,387

38. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) Directors' and chief executives' emoluments *(continued)*

(ii) The remuneration of every director and chief executive for the year ended 31 December 2016 was set out as follows:

	Fees RMB'000	Salaries RMB'000	Housing allowance RMB'000	Estimated money value of medical insurance and other social insurance RMB'000	Employer's contribution to retirement plan RMB'000	Termination benefits RMB'000	Total RMB'000
Year ended 31 December 2016							
Executive Directors							
Mr. Shao Zhong#	–	2,394	876	42	42	–	3,354
Mr. Wong Shing Fat****	–	3,394	516	138	–	–	4,048
Mr. Mok Chun Ho, Neil	–	1,353	180	54	–	–	1,587
Ms. Yang Ying	–	1,104	600	90	90	–	1,884
Mr. Li Jian	–	737	360	87	87	–	1,271
Mr. Deroche Alain*	–	857	455	–	589	–	1,901
Non-executive Director							
Dr. Cheng Chi Kong***	195	–	–	–	–	–	195
Independent non-executive Directors							
Mr. Jiang Nanchun	132	–	–	–	–	–	132
Mr. Wang Shi	132	–	–	–	–	–	132
Mr. Au-Yeung Kwong Wah	330	–	–	–	–	–	330
Dr. Gao Hao**	38	–	–	–	–	–	38
	827	9,839	2,987	411	808	–	14,872

\# Mr. Shao Zhong is also the chief executive officer of the Company for the period from 1 January 2016 to 30 November 2016 and since 11 October 2017.

* Mr. Deroche Alain was appointed as an executive director of the Group with effect from 1 June 2016.

** Dr. Gao Hao was appointed as an independent non-executive director of the Group with effect from 18 August 2016.

*** Dr. Cheng Chi Kong has resigned as a non-executive director of the Group with effect from 26 August 2017.

**** Mr. Wong Shing Fat has resigned as an executive director of the Group with effect from 11 October 2017. He was also the chief executive officer of the Company from 1 December 2016 to 11 October 2017. The termination benefits of RMB1,826,000 were paid to Mr. Wong Shing Fat during the year by a subsidiary of the Company in respect of the payment for the loss of office as a director of the Group.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Five Year Financial Summary

RESULTS

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Turnover	435,608	518,926	595,725	603,801	631,180
(Loss)/profit before taxation	(37,454)	6,487	25,080	45,254	51,432
Income tax	(2,334)	(3,474)	(4,489)	(7,461)	(18,245)
(Loss)/profit for the year	(39,788)	3,013	20,591	37,793	33,187

ASSETS AND LIABILITIES

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	653,190	692,618	679,744	675,822	621,849
Total liabilities	(176,606)	(221,105)	(207,751)	(217,224)	(183,265)
Total equity	476,584	471,513	471,993	458,598	438,584

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").

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