SHIFANG HOLDING LIMITED
十方控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1831)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

- Revenue decreased by 37.0% from RMB270.7 million for the six months ended 30 June 2011 to RMB170.5 million for the six months ended 30 June 2012.

- Gross profit decreased by 53.5% from RMB136.2 million for the six months ended 30 June 2011 to RMB63.4 million for the six months ended 30 June 2012.

- The Group recorded a loss for the period of RMB44.2 million for the six months ended 30 June 2012, mainly attributable to the significant decline in revenues during the period.

- The Group recorded a basic loss per share of RMB0.0665 for the six months ended 30 June 2012 as compared to a basic earnings per share of RMB0.0571 for the same period in 2011.

- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

Unless the context otherwise specifies, terms used in this announcement shall have the same meanings as those defined in the prospectus of the Company dated 22 November 2010 (the “Prospectus”).

The board of directors (the “Board”) of ShiFang Holding Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the corresponding period of 2011.

The condensed consolidated interim financial information has not been audited by the auditor of the Company, but has been reviewed by the Company’s audit committee (the “Audit Committee”).

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

	Note	**As at 30 June 2012** *RMB'000* **(Unaudited)**	As at 31 December 2011 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**58,341**	61,359
Investment properties		**1,975**	1,975
Intangible assets		**43,545**	52,307
Available-for-sale investment	*5*	**63,325**	–
Interest in an associate	*6*	**–**	40,393
Prepayments, deposits and other receivables	*7*	**440,000**	447,500
		607,186	603,534
Current assets			
Inventories		**6,191**	8,245
Assets held for sale		**33,796**	29,336
Trade receivables – net	*4*	**225,226**	259,669
Prepayments, deposits and other receivables	*7*	**394,047**	294,649
Amounts due from related parties		**5,692**	4,829
Cash and cash equivalents		**81,822**	214,377
		746,774	811,105
Total assets		**1,353,960**	1,414,639
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**62,863**	62,863
Share premium		**530,900**	530,900
Other reserves		**109,627**	104,017
Retained earnings		**369,125**	421,265
		1,072,515	1,119,045
Non-controlling interests		**41,153**	37,005
Total equity		**1,113,668**	1,156,050

	Note	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	1,006
Amount due to a related party	*9*	**56,312**	68,600
Deferred income tax liabilities		**6,087**	7,397
		62,399	77,003
Current liabilities			
Trade payables	*8*	**7,900**	4,147
Other payables and accrued expenses		**83,392**	86,668
Current income tax liabilities		**39,727**	40,967
Borrowings		**45,984**	48,522
Amounts due to related parties		**890**	1,282
		177,893	181,586
Total liabilities		**240,292**	258,589
Total equity and liabilities		**1,353,960**	1,414,639
Net current assets		**568,881**	629,519
Total assets less current liabilities		**1,176,067**	1,233,053

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	Six months ended 30 June 2012 *RMB'000* (Unaudited)	Six months ended 30 June 2011 *RMB'000* (Unaudited)
Revenue	*3*	**170,470**	270,684
Cost of sales	*11*	**(107,101)**	(134,523)
Gross profit		**63,369**	136,161
Selling and marketing expenses	*11*	**(21,946)**	(16,185)
General and administrative expenses	*11*	**(95,299)**	(72,900)
Other income	*10*	**4,004**	5,083
Other gain	*10*	**11,636**	–
Operating (loss)/profit		**(38,236)**	52,159
Finance income	*12*	**1,412**	1,272
Finance costs	*12*	**(1,626)**	(555)
Finance (costs)/income – net	*12*	**(214)**	717
Share of profit of an associate		**1,033**	–
(Loss)/profit before income tax		**(37,417)**	52,876
Income tax expense	*13*	**(6,830)**	(11,121)
(Loss)/profit for the period		**(44,247)**	41,755
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the period		**(44,247)**	41,755

	Note	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
(Loss)/profit attributable to:			
– Equity holders of the Company		**(47,905)**	41,773
– Non-controlling interests		**3,658**	(18)
		(44,247)	41,755
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		**(47,905)**	41,773
– Non-controlling interests		**3,658**	(18)
		(44,247)	41,755
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company			
– Basic (RMB per share)	*14*	**(0.0665)**	0.0571
– Diluted (RMB per share)	*14*	**(0.0665)**	0.0567
– Dividends	*15*	**–**	–

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(46,903)**	(17,673)
Net cash used in investing activities	**(69,590)**	(155,413)
Net cash used in financing activities	**(16,062)**	(83,105)
Net decrease in cash and cash equivalents	**(132,555)**	(256,191)
Cash and cash equivalents, at 1 January	**214,377**	546,001
Cash and cash equivalents, at 30 June	**81,822**	289,810

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2012 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRS.

During the six months ended 30 June 2012, the Group has reported net operating cash outflow of RMB46,903,000 and the Group's cash and cash equivalents has reduced by RMB132,555,000 to RMB81,822,000 as at 30 June 2012. The significant cash outflows during the six months ended 30 June 2012 were primarily due to the decrease in revenue from newspaper advertising and online services while the Group continued to fund the expansion of its business using its own financial resources.

The board of directors of the Company has reviewed the Group's cash flow projections. The projections make key assumptions with regard to the anticipated cash flows from the Group's operations, the reasonably possible changes in the operational performance and availability of future borrowing facilities, including the extension of existing borrowings.

Based on these cash flow projections, the Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. The Group's ability to achieve the projected cash flows depends on company's ability to successfully implement initiatives to improve the Group's cash flows, including, measures to control and contain capital expenditure and corporate overheads, collect the remaining proceeds from the partial disposal of its interest in Yunnan Handing Investment Co., Limited*（雲南漢鼎投資有限公司）("Yunnan Handing") according to the scheduled payment terms as disclosed in the Company's announcement dated 5 June 2012, working closely with customers to timely receive settlement for trade receivables according to the contract terms, and negotiating with financial institutions to extend existing borrowings upon their due dates and obtaining new borrowing facilities.

The directors, after making due enquiries and considering the reasonably possible changes in trading performance, the availability of future borrowing facilities, believe that there will be sufficient financial resources available to the Group at least in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, the directors consider that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

1.2 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in the Company's annual report for the year ended 31 December 2011 except as described below.

- Taxes on income for the six months ended 30 June 2012 are accrued using the tax rate that would be applicable to expected total annual earnings.

- The Group has partially disposed its investment in Yunnan Handing in the period ended 30 June 2012. As a result, Yunnan Handing which was an associate has been reclassified as an available for sale investment of the Group, and is initially recognised at fair value plus transaction costs. Available-for-sale financial asset is derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial asset is subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

(a) Amendments and interpretations to existing standards effective in 2012 but have no significant impact to the Group's results and financial position

- Amendment to IFRS 7 'Disclosures – transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This is not relevant to the Group, as it has not made any relevant financial assets transfer transactions.

- Amendment to IFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters' beginning on or after 1 July 2011. This is not applicable to the Group as it is not operating in hyperinflation region.

- Amendment to IAS 12 'Deferred tax: recovery of underlying assets' beginning on or after 1 January 2012. This is not relevant to the Group, as the investment properties of the Group have no significant fair value change. No deferred assets or liabilities have been recognised for the fair value changes of the investment properties.

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group recognised such gains in other comprehensive income.

- There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt IFRS 9.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- IAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to IAS 19's impact.

  There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

1.3 Estimate

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements for the year ended 31 December 2011. During the six months ended 30 June 2012, the Group has made impairment provision for certain amount of doubtful receivables *(also see note 4)* and has re-assessed the recoverability of the prepayment and deposit to Shenyang Evening News Media Corporation Limited*（瀋陽晚報傳媒有限公司）("Shenyang Media Corporation") (being the subsidiary of Shenyang Daily Agency and responsible for the operations of Shenyang Evening News（瀋陽晚報））*(see note 7)* and the contingent liability arising from the Group's litigation with Shenyang Media Corporation (see contingent liability disclosure in Management Analysis and Discussion), all of which requires significant judgement and estimates.

2 Segment information

The Board has been identified as the chief operating decision maker. Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions.

The Board assesses the performance of the Group's publishing and advertising businesses from both geographic and product perspectives. Geographically, management considers the Group's publishing and advertising businesses are primarily operated in the PRC. All of the Group's publishing and advertising businesses activities are included in a single reportable segment in accordance with IFRS 8 "Operating segments". As such, no segment information is presented.

3 Revenue

Analysis of the revenue by category is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Newspaper advertising	**114,614**	206,230
Online services	**4,096**	35,897
Marketing, distribution management, consulting and printing services	**51,384**	28,180
Television and radio advertising	**376**	377
	170,470	270,684

4 Trade receivables – net

	As at 30 June 2012	As at 31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**326,884**	334,752
Less: provision for impairment on trade receivables	**(101,658)**	(75,083)
Trade receivables, net	**225,226**	259,669

The payment terms with customers are mainly cash on delivery and on credit. The credit periods range from 30 days to 365 days after end of the month in which the relevant sales occurred. Aging analysis of the Group's trade receivables based on invoice date is as follows:

	As at 30 June 2012	As at 31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
1 – 30 days	**30,333**	27,940
31 – 60 days	**17,495**	16,322
61 – 90 days	**12,753**	13,305
91 – 365 days	**91,792**	142,202
Over 1 year	**174,511**	134,983
	326,884	334,752
Less: provision for impairment on trade receivables	**(101,658)**	(75,083)
Trade receivables, net	**225,226**	259,669

As at 30 June 2012, trade receivables of RMB97,095,000 (31 December 2011: RMB79,283,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and the repayment period is in line with the Group's practice.

As at 30 June 2012, trade receivables of RMB101,658,000 (31 December 2011: RMB75,083,000) were impaired and provided for. For the six months ended 30 June 2012, the amounts of the provision charged to the condensed consolidated statement of comprehensive income were RMB27,607,000 (For the six months ended 30 June 2011: RMB35,888,000). The provision was made as management has determined that the ability of the debtors to repay the trade receivables has deteriorated. This provision amount was determined in line with the Group's policies and historical practice, where management has reviewed the relevant debtors' current creditworthiness and past payment history.

For the six months ended 30 June 2012, trade receivables of RMB9,325,000 were directly written-off to the condensed consolidated statement of comprehensive income (For the six months ended 30 June 2011: nil). Management has tried reasonable efforts to collect the trade receivables from those debtors and has determined that the recoverability of these balances is not probable.

The Group has made a provision for impairment of receivables from customers where the Group had expected that its relationship with these customers would cease as a result of the termination of the Group's cooperation arrangement with Shenyang Evening News and the amount of provision amounted to RMB30,361,000. Management has reassessed this provision during the current period and has determined that the provision remain to be appropriate as at 30 June 2012.

5 Available-for-sale investment

	As at 30 June 2012 *RMB'000* **(Unaudited)**	As at 31 December 2011 *RMB'000* (Audited)
Unlisted share, at fair value		
Balance at the beginning of the period	**–**	–
Addition	**63,325**	–
Balance at the end of the period	**63,325**	–

On 5 June 2012, the Group disposed of an 18.5% equity interest in Yunnan Handing. Pursuant to the disposal, the Group's interest in Yunnan Handing reduced to 15.0% and ceased to have significant influence over Yunnan Handing from the date of disposal. The remaining investment in Yunnan Handing was recognised as available-for-sale investment and measured at fair value. This partial disposal of interest in Yunnan Handing resulted in a gain of RMB11,636,000 which was recognised in the Group's condensed consolidated statement of comprehensive income for the six months ended 30 June 2012.

6 Interest in an associate

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Share of net assets	**–**	40,393

As at 31 December 2011, the Group's investment in an associate represented its 33.5% equity interest in Yunnan Handing. Subsequent to the Group's partial disposal of its interest in Yunnan Handing as set out in note 5, the Group's remaining interest in Yunnan Handing has been recognised as available-for-sale investment.

7 Prepayments, deposits and other receivables

	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Non-current portion		
Prepayment for long term investments	**173,000**	173,000
Deposits to newspaper publishers	**92,000**	92,000
Deposits for marketing and promotion projects	**175,000**	182,500
Prepayments, deposits and other receivables – non-current	**440,000**	447,500
Current portion		
Deposit for a marketing and promotion project	**21,875**	17,500
Prepayments	**189,143**	156,210
Deposits and other receivables	**139,249**	77,159
Deposit and prepayment to Shenyang Media Corporation	**43,780**	43,780
Prepayments, deposits and other receivables – current	**394,047**	294,649

As at 30 June 2012, no provision for impairment has been made to the RMB43,780,000 deposit and prepayment to Shenyang Media Corporation as management has determined that the amount can be recovered having consider all relevant facts and circumstances together with advice from the Group's external legal counsel.

8 Trade payables

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Trade payables	**7,900**	4,147

Payment terms granted by suppliers are mainly on cash on delivery and on credit. The credit periods ranging from 30 days to 365 days after end of the month in which the relevant purchase occurred.

The aging analysis of the trade payables is as follows:

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
1 – 30 days	**2,775**	2,227
31 – 90 days	**3,168**	815
Over 90 days	**1,957**	1,105
	7,900	4,147

9 Amount due to a related party

The amount represents balance in which a non-wholly-owned subsidiary due to its non-controlling shareholder. The amount is unsecured, non-interest bearing and repayable upon mutual agreement between the Group and the non-controlling shareholder.

10 Other income and other gain

	Six months ended 30 June 2012 RMB'000 (Unaudited)	Six months ended 30 June 2011 RMB'000 (Unaudited)
Other income:		
Sale of newsprint papers	**2,170**	29
Sale of scrap material	**398**	1,665
Government grant	**1,416**	2,664
Sundry income	**20**	725
	4,004	5,083
Other gain:		
Gain on partial disposal of interest in Yunnan Handing	**11,636**	–

11 Expense by nature

	Six months ended 30 June 2012 RMB'000 (Unaudited)	Six months ended 30 June 2011 RMB'000 (Unaudited)
Auditor's remuneration	**1,367**	1,025
Cost of newspaper advertising		
– Media costs	**80,736**	109,668
Cost of online services	**1,402**	886
Cost of television advertising		
– Media costs	**1,170**	580
Cost of management, distribution management, consulting and printing services:		
– Raw material	**9,876**	5,861
– Media costs	**2,058**	2,324
– Other costs	**1,034**	978
Depreciation	**4,756**	3,971
Amortisation	**8,004**	396
Impairment loss on intangible assets	**856**	–
Operating lease charges in respect of land and buildings	**2,399**	1,742
Gain on disposals of property, plant and equipment	**(879)**	(39)
Provision for impairment on trade receivables	**27,607**	35,888
Trade receivables written off	**9,325**	–
Net foreign exchange loss	**50**	6,652
Employee benefits expense (including directors' emoluments)	**40,355**	37,434
Business tax	**6,179**	10,305

12 Finance income and costs

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance income:		
– Interest income on short-term bank deposits	**1,412**	1,272
Interest expenses on:		
– Bank borrowings	**(1,626)**	(555)
Finance (costs)/income – net	**(214)**	717

13 Income tax expense

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2012. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the interim consolidated statement of comprehensive income represents:

	Six months ended 30 June	Six months ended 30 June
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
– Mainland China Corporate Income Tax ("CIT")	**8,140**	11,121
– Deferred income tax	**(1,310)**	–
Total income tax expense	**6,830**	11,121

14 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share for the six months ended 30 June 2012 and 2011 is calculated by dividing the (loss)/profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(47,905)**	41,773
Weighted average number of shares in issue *(thousands)*	**719,942**	732,165
Basic (loss)/earnings per share *(RMB per share)*	**(0.0665)**	0.0571

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's share options issued under the pre-IPO share option is the sole category of dilutive potential ordinary shares. Diluted loss per share for the six months ended 30 June 2012 is the same as the basic loss per share as the conversion of potential ordinary shares in relation to the outstanding pre-IPO share options would have an anti-dilutive effect to the basic loss per share.

	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
(Loss)/profit attributable to the equity holders of the Company *(RMB'000)*	**(47,905)**	41,773
Weighted average number of ordinary shares issued *(thousands)*	**719,942**	732,165
Adjustment for share options *(thousands)*	**–**	5,058
Weighted average number of ordinary shares issued for diluted (loss)/earnings per share *(thousands)*	**719,942**	737,223
Diluted (loss)/earnings per share *(RMB per share)*	**(0.0665)**	0.0567

15 Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (For the six months ended 30 June 2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry review

In the first half of 2012, the worsening European debt crisis and the sluggish U.S. economy put pressure on and further slowed the economic growth in China. China's gross domestic product ("GDP") grew at an average rate of 7.8% in the first half of the year, the lowest rate in the past three years. The decline in macroeconomic indicators also brought challenges to the advertising market. According to the China Advertising Market Review in the first half of 2012 published by CVSC – TNS Research ("CTR"), an authoritative research institution in China, advertising spending in the conventional media for the first half of the year experienced a year-on-year increase of 3.9%, the lowest growth rate recorded in the past five years, among which, newspaper advertising spending recorded a decrease of 7.3%, the only form of media to record a decline in revenue among media advertising. This was mainly due to the three domestic pillar industries, which take up 60% of the newspaper advertising spending – namely, the commercial and services industry, real estate/construction industry and transportation industry – experienced different extents of decline as compared to last year.

Despite the challenges in operations in the short term, China has maintained its economic growth momentum and included the advertising industry in the *Guiding Catalogue for Industrial Structure Adjustment* under the Twelfth Five-Year Plan as one of "the industries to be supported", offering favorable policy support and thereby benefiting the sustainable development of the PRC media and advertising industry. Therefore, the Company and its subsidiaries ("ShiFang Holding" or the "Group") seek development opportunity in this ever changing market environment. As the new media is increasingly becoming the main channel for people to obtain information, and demonstrating its incomparable advantage in broadcasting over the conventional media, the Group has also been committing considerable effort to developing new technologies and to actively exploring the business of cross-platform mobile internet services through acquisitions.

Business Review

The Group is one of the integrated printed media service providers of major cross-media advertising platforms in China. It has been dedicated to offering one-stop solutions to advertisers and creating value for its customers through four major businesses, including (i) newspaper advertising; (ii) online services; (iii) marketing, distribution management, consulting and printing services; and (iv) television and radio advertising.

For the six-month period ended 30 June 2012 (the "Period"), the Group's revenue from its major businesses amounted to approximately RMB170.5 million, representing a decrease of 37% as compared with 2011. This was mainly due to the decrease in revenue generated from newspaper advertising and online services. Gross profit for the Period amounted to approximately RMB63.4 million, representing a year-on-year decrease of 53%. Overall gross profit margin for the Period was 37.2% (the first half of 2011: 50.3%). Although the gross profit margin of the marketing, distribution management, consulting and printing services rose slightly during the review period, the increase was offset by the decrease in newspaper advertising and online services, causing the overall gross profit margin to drop.

Net loss after taxation for the Period was approximately RMB44.2 million (the first half of 2011: net profit after taxation of RMB41.8 million). This was mainly attributable to the decline in revenue generated by the Company from advertisements for the real estate industry and commercial and services industry due to the decline in China's economic growth and the continued implementation of austerity measures on the real estate industry by the PRC government under the challenging domestic and foreign economic environment, as well as the termination of the advertising distribution agreement with *Shenyang Evening News* due to a contract dispute in July 2011, in addition to the expiration of the exclusive real estate advertising agreement with *Dalian Daily*. Despite all of these factors, the Company is striving to achieve stable business development by actively exploring new partners and developing new businesses.

Maintained solid and broad customer base

The Group is committed to maintaining a solid and broad customer base of advertisers covering various business sectors such as consumer products, real estate, 3C (computer, communication and consumer products), telecommunications, home appliance retail, automotive, home construction materials, healthcare and medical, education and classified advertisements. Although the slowdown in China's economic growth in 2012 and the generally complex and challenging domestic and foreign economic environment caused certain impacts on the advertising market, the Group managed to maintain a customer mix similar to that in the previous year by leveraging its long-term and close working relationships with its customers.

Meanwhile, the Group actively explored new customers in order to further expand its customer base. In addition to achieving a higher coverage ratio of newspaper advertising, the Group assisted its clients to gradually expand into more diverse advertising channels, offering tailored advertising packages. In order to assist clients to achieve all-around optimized marketing objectives, the Group combined traditional printed newspaper advertisements and newspaper content with the emerging media channels such as the internet and mobile phones through integration with new media communication technologies, and also emphasized the development of new media businesses such as the mobile internet business.

Newspaper advertising

During the period under review, the Group's newspaper advertising revenue amounted to RMB114.6 million, representing a year-on-year decrease of 44.4%. Gross profit amounted to RMB31.0 million, representing a year-on-year decrease of 65.0%, which was mainly attributable to the decline in revenue generated by the Company from advertisements in the real estate industry and commercial and services industry due to the decline in China's economic growth and the continued implementation of austerity measures on the real estate industry by the PRC government, in addition to the termination of the advertising distribution agreement with *Shenyang Evening News* due to a contract dispute in July 2011, as well as the expiration of the exclusive real estate advertising agreement with *Dalian Daily*. Also, the revenue contributions from cooperation with new media partners were limited since the partnerships were still at the investment stage of development. In particular, newspaper advertising revenue generated from comprehensive cooperation media partners amounted to RMB94.8 million, accounting for 82.7% of the total revenue of the newspaper advertising business. Newspaper advertising revenue generated from partial cooperation contracts amounted to RMB16.1 million, or 14.0% of the total revenue of the newspaper advertising business.

During the period under review, the newspaper advertising business remained one of the key businesses of the Group. However, the continued implementation of austerity measures on the real estate industry by the PRC government resulted in the impact of monetary tightening on real estate advertising and other industries. Accordingly, advertisers reduced their marketing budgets, which in turn put pressure on the Group's newspaper advertising business.

As of 30 June 2012, the Group has 10 media partners in more than 11 second- and third-tier cities across seven provinces in the PRC, covering a very large population. In addition to its existing partners, namely *Southeast Express, Lifestyle Express, Modern Life Daily, Southeast Business, Jinhua Daily, Jinhua Evening News, Central Guizhou Morning Post, Xiamen Daily* and *Xiamen Evening News*, the Group has started to cooperate with two additional media partners, including one newspaper, *City Lifestyle Weekly*, and a magazine, *TV Friends*, in 2012. The new partnerships further complemented the extended foothold of the Group in the PRC. These newspapers and magazines have granted the Group comprehensive or partial cooperation rights to sell their advertising space and the Group integrated advertising services with marketing to provide customers greater convenience.

Given that the structural reform of non-political publication sectors is the general trend in the PRC publishing industry at present, the Group actively participated in the reform and aims to promote the rapid development of the news publication industry in the PRC. Since December 2011, the Group has cooperated with Liaoning Baixin Media Company Limited to engage in the operation of *City Lifestyle Weekly, formerly known as Liaoning Broadcasting & TV Weekly*, and *TV Friends* through ShiFang XinDa Culture Media Company Limited, the non-wholly owned subsidiary of the Group, further consolidating the Group's market position as an integrated printed media service provider.

In addition, Shenyang Media Corporation unilaterally terminated the contract with the Group on 26 July 2011. This led to loss of revenue for Shenyang Evening News for the six months ended 30 June 2012 and had an impact on the Group's business. The legal proceedings between the Group and Shenyang Media Corporation are currently in progress. The Company will make further announcement to inform its shareholders of further developments of the litigation as and when appropriate (For further details please refer to "Contingent liabilities" under the section of "Financial Review").

Online Services

During the period under review, revenue of the Group's online services and digital media businesses amounted to RMB4.1 million, accounting for 2.4% of the Group's total revenue and representing a decrease of 88.6% as compared with the corresponding period last year. Gross profit was RMB2.5 million, representing a decrease of 92.6% as compared with the corresponding period last year, which was mainly due to the impact of the domestic and foreign economic environment that resulted in customers reducing their expenditure budget on non-portal websites. Furthermore, intensified industry competition, the adjustment and revision of the website business model, the procurement of copyrighted novel resources and copyrighted authorized works, the closing down of the unauthorized uploading of free reading resources by users on files sharing portal, the implementation of shared profit with authorizers through reading subscriptions, the reduction of advertising space on reading pages so as to enhance the reading experience of subscribed users and the reduction in the number of free reading members and active website members caused the Company to lose its competitive advantage in the online services sector and to lose part of its market share.

For the online services, the Group established an internet media platform with Duk, DNKB and Life News in order to publish newspapers, magazines, novels and advertisements electronically, developing the same exclusive partnerships with its newspaper partners. Being one of the largest digital media publishing platforms in China, Duk has online publishing rights agreements with over 200 publishers, 860 magazine publishing houses and 5,000 magazines as well as digital publishing cooperation with 17 daily, evening and commercial newspapers. Its library of online novels amounts to over 120,000 volumes and its accumulated catalogue of electronic periodicals, electronic magazines and digital newspapers has reached over 240 million volumes or pieces. Leveraging this platform, the Group optimized its digital publications and analyzed Duk's database in order to provide services and information.

During the Period, the Group continued to actively launch a new version for Duk with a clear business model which focuses on expanding the variety of reading items from the core original novels to incorporate both network and traditional literature. The Group offers professional copyright agency services (C2B) and the best and most unrestricted writing platform of original literature (B2C) for writers. Moreover, the Group vigorously expands the business of copyrights trading (B2B) by cooperating with third party digital platforms and reading bases and setting up marketing channels for institutional users. Together with effective marketing strategies, the Group endeavours to boost the writers' reputations and to maximize the revenue from their work, thereby achieving a win-win situation. In terms of the copyright agency business (C2B), Duk actively explored the socialized integrated model for marketing to promote the contracted writers and their works through TV shows, print media, weibo, discussion forum, portal websites; and commenced cooperation with the China Telecom reading portal. The three business models have entered into the promotion and development stages.

In the first half of 2012, the internet advertising market in the PRC continued to maintain rapid growth, reflecting the market acceptance of new media. In recent years, the increases in general sales volumes of mobile devices and tablet computers have also indicated the substantial growth potential of the advertising services of such new mobile media.

Given the potential of online media advertising, the Group established Yunnan HanDing Technology Co., Ltd. ("Yunnan HanDing") last year in order to engage in the new online media business. It also operates various local online platforms such as Life news (www.shxb.net) and Wan Wei Life (iwanwei.com) in Kunming in conjunction with *Lifestyle Express*. During the Period, Yunnan HanDing launched mobile applications for IOS and Android platforms such as Wan Wei Yunnan, a mobile travel information application, and Zhui Ai Magazine, a mobile reading application.

In order to grasp the opportunity of the rapid development of the advertising industry by further expanding the Group's existing advertising business into the new media of mobile devices and the internet, the Group signed an agreement on 15 May 2012 and completed the acquisition of 34% of issued shares for the voice over internet protocol ("VoIP") based communication software known as Cloud Call ("Cloud Call/Cloud Call App") on 10 August 2012, which operates on mobile and personal computer platforms. Its main function is to allow users, whether they are located in the PRC or overseas, to make calls to China and Hong Kong landlines or mobile telephone numbers via 3G, wifi or internet networks without payment of roaming or long distance telephone charges. In order to create market awareness and momentum for market penetration, Cloud Call is an application available for download free of charge at Apple's app store and the Android market. Advertising income is expected to be generated from providing advertising services in ring-tones and on screen displays when users use the application to make telephone calls. The Group had a soft launch for the Cloud Call App in April 2012 and provided a free trial period to advertisers. During the trial period, the application received positive feedback from users. Although the Group has not yet generated any revenue from the Cloud Call business, it has plans to commence the full launch of the Cloud Call business in the next few months to take advantage of the favorable market potential.

Marketing, Distribution Management, Consulting and Printing Services

In the first half of 2012, revenue from the Group's marketing, distribution management, consulting and printing services amounted to RMB51.4 million, accounting for 30.1% of the Group's total revenue and representing a significant increase of 82.4% compared to the corresponding period last year, mainly due to the significant increase in marketing revenue and the increase in revenue in distribution management, consulting and printing services.

The Group has entered into exclusive cooperation contracts with some of its newspaper partners to sell their advertising space and the Group's integrated services to customers. The Group also offers certain ancillary services, including printing, distribution management, consulting and marketing advice. The Group is committed to strengthening strategic and close cooperative relationships with its newspaper partners. By helping newspapers increase their printing quality, the revenue generated from the Group's integrated media printing services to customers has increased, achieving a win-win situation. During the reviewing period, the Group continued to provide comprehensive distribution and management services to *Southeast Express* and *Lifestyle Express*. The Group's three factories located in Fuzhou, Kunming and Guizhou operated the printing of *Southeast Express*, *Lifestyle Express* and *Central Guizhou Morning Post*, respectively. The Fuzhou factory has added a new production line for the printing of *China Securities Journal* and *Shanghai Securities News* to be distributed in Fujian in addition to the printing of *Southeast Express*. With effective management of newspaper printing quality, the Group is able to ensure high quality in the printing of advertisements, making them more attractive to readers, as well as to strengthen the strategic and close cooperative relationships with its newspaper partners.

During the review period, by providing planning and marketing services for real estate projects and collecting planning fees and commissions, as well as revenue generated from the operation of FangKe Web, the Group recognised revenue of RMB27.4 million from the Group's real estate marketing services. Leveraging the Group's own resources and the established technology developed by FangKe Web, the Group provides comprehensive project marketing and property market planning, which further demonstrates its competitiveness.

ShiFang Healthcare Technology Corporation Limited, a subsidiary formed by the Group in May last year, is committed to developing the most unique medical and healthcare information platform across the country and providing all-round medical and healthcare information by setting up an integrated information services platform comprising websites, call centre platforms and appointment and registration systems. Through strategic cooperation with experts from public hospitals and through healthcare information advisory, consultancy, newspaper health editions etc. methods to serve the end market, the Group has developed interaction between customers, including experts, readers and members. The Group considers this marketing model to be an effective and innovative model. Currently, the Group has entered into agreements with 10 public hospitals in Fuzhou and plans to further promote this model.

On 28 June 2012, Baichuan Duke Science and Technology Limited, a wholly-owned subsidiary of the Company, entered into the Advertisement Services Agreement with Beijing Network, which obtained exclusive operation rights for ChinaUnicom Ezhuan RingTone（中國聯通易賺炫鈴）in the PRC for a term of 10 years since 19 May 2011. Pursuant to the Advertisement Services Agreement, Beijing Network will broadcast the self-promotional advertisement(s) for www.duk.cn designed by Baichuan Duke with an aggregate total of 12 million times through ChinaUnicom Ezhuan RingTone（中國聯通易賺炫鈴）located in different parts of China. The term of the Advertisement Services Agreement is 12 months from 1 July 2012 to 30 June 2013. Through the cooperation, the brand image and market recognition of www.duk.cn is expected to be further enhanced and strengthened.

Television and Radio Advertising Business

During the six months ended 30 June, 2012, revenue from the Group's television and radio advertising business amounted to RMB0.4 million, accounting for 0.2% of the Group's total revenue, similar to the Group's performance in the same period last year.

The television media business mainly operates as an extended auxiliary service to customers in the newspaper media business in order to expand the Group's business beyond newspaper media. During the period, the Group sustained its co-operation with Nanning Television Station to mainly broadcast advertisements in respect of home-improvement and building materials industries in advertising time slots on four channels of Nanning Television Station. The Group is actively exploring co-operation opportunities with other television stations in order to expand its television advertising business. The Group strives to form full or partial cooperation partnerships with television stations which are similar to its relationships with the newspaper media so as to further expand the sources of income of the Group's television and radio advertisement business, and to eventually achieve the goal of establishing itself as a major television media operator and a media resource provider.

In terms of radio advertising, during the Period, the Group signed a five-year agreement regarding a cooperative project with Yangguang Dushi (央廣都市), a wholly-owned subsidiary of China National Radio, in relation to the development of radio stations at the provincial, municipal and county levels. Through the project, the Group will enjoy access to the rich historical database and copyright resources of China National Radio, which it will apply to multimedia development. In addition, the Group will be able to sell its personalized and custom radio programmes to various radio stations at the provincial, municipal and county levels through this project, which can also be applied to the Group's network business. However, Yangguang Dushi's failure to provide the usage rights of a corresponding programme library in a timely manner led the relevant business development to fail to be carried out in a smooth manner. In this respect, the Group has commissioned a Chinese legal advisor to apply for arbitration by the China Economic and Trade Arbitration Commission regarding the contract.

FINANCIAL REVIEW

Revenue

Total revenue decreased by 37.0% from RMB270.7 million for the six months ended 30 June 2011 to RMB170.5 million for the six months ended 30 June 2012, primarily due to the decrease in revenue from newspaper advertising from RMB206.2 million for the six months ended 30 June 2011 to RMB114.6 million for the six months ended 30 June 2012, and revenue from online services shrank from RMB35.9 million for the six months ended 30 June 2011 to RMB4.1 million for the six months ended 30 June 2012. Revenue from the comprehensive cooperation contracts accounted for approximately 82.7% of the Group's total newspaper advertising revenue for the six months ended 30 June 2012.

Gross profit and gross profit margin

Gross profit decreased by 53.5% from RMB136.2 million for the six months ended 30 June 2011 to RMB63.4 million for the six months ended 30 June 2012, which was primarily due to a drop in revenue. Gross profit margin decreased from 50.3% for six months ended 30 June 2011 to 37.2% for six months ended 30 June 2012. Notwithstanding gross profit margins of the marketing, distribution management, consulting and printing services segments had slightly increased during the period, the overall gross profit margin was adversely affected by the performance of newspaper advertising and online services segments and ended up at a lower level.

Other income

Other income decreased by 21.6% from RMB5.1 million for the six months ended 30 June 2011 to RMB4.0 million for the six months ended 30 June 2012, primarily as a result of a decrease in the income from government subsidies.

Other gain

Other gain amounted to RMB11.6 million is recorded for the partial disposal of interest in Yunnan Handing for the six months ended 30 June 2012.

Selling and marketing expenses

Selling and marketing expenses increased by 35.6% from RMB16.2 million for the six months ended 30 June 2011 to RMB21.9 million for the six months ended 30 June 2012, mainly because of an increase in compensation to sales personnel and a rise in commission paid to the sales team as a result of growth in revenue from marketing management. Selling and marketing expenses as a percentage of revenue increased slightly from 6.0% for six months ended 30 June 2011 to 12.9% for six months ended 30 June 2012.

General and administrative expenses

General and administrative expenses increased by 30.7% from RMB72.9 million for the six months ended 30 June 2011 to RMB95.3 million for the six months ended 30 June 2012, mainly because of the increase in staff costs by RMB6.0 million, the increase in amortisation of intangible assets by RMB7.6 million, and increase in office expenses.

Income tax expenses

Income tax expenses decreased by 38.6% from RMB11.1 million for the six months ended 30 June 2011 to RMB6.8 million for the six months ended 30 June 2012 as a result of decrease of taxable income for the period offset by the effect of a RMB4.6 million charge recorded for tax under provided for in prior years.

Results for the period

The Group recorded a loss for the period of RMB44.2 million for the six months ended 30 June 2012, mainly attributable to the significant decline in revenue during the period.

Liquidity and capital resources

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Net cash used in operating activities	**(46,903)**	(17,673)
Net cash used in investing activities	**(69,590)**	(155,413)
Net cash used in financing activities	**(16,062)**	(83,105)
Net decrease in cash and cash equivalents	**(132,555)**	(256,191)
Cash and cash equivalents, at 1 January	**214,377**	546,001
Cash and cash equivalents, at 30 June	**81,822**	289,810

Cash flow used in operating activities

For the six months ended 30 June 2012, net cash used in operating activities amounted to RMB46.9 million, primarily attributable to the loss for the period amounted to RMB44.2 million.

Cash flow used in investing activities

For the six months ended 30 June 2012, net cash used in investing activities amounted to RMB69.6 million, resulting primarily from payment for investment in an associate of RMB100.0 million, cash receipt for the partial disposal of interest in associate of RMB30.0 million, deposit paid to a new comprehensive cooperative media partner of RMB1.3 million, payments for the additions of plant and equipment such as printing equipment and office fixtures of RMB2.7 million, offset by recovery of cash deposits as collateral of RMB4.4 million.

Cash flow used in financing activities

For the six months ended 30 June 2012, net cash used in financing activities amounted to RMB16.1 million, primarily attributable to repayments of loans advanced from a related party of RMB12.3 million and repayments of bank borrowings and other loans of RMB3.5 million.

Capital expenditures

The Group's business generally does not require significant ongoing capital expenditures. The Group incurs capital expenditures mainly for the purchase of printing machinery and office equipment. The Group's capital expenditures were RMB2.7 million and RMB14.6 million for the six months ended 30 June 2012 and 30 June 2011, respectively.

Trade receivables – net

The following table sets out the aging analysis of the Group's trade receivables at the dates indicated:

	As at 30 June 2012 ***RMB'000***	As at 31 December 2011 *RMB'000*
Aging analysis of trade receivables		
1 – 30 days	**30,333**	27,940
31 – 60 days	**17,495**	16,322
61 – 90 days	**12,753**	13,305
91 – 365 days	**91,792**	142,202
Over 1 year	**174,511**	134,983
Total	**326,884**	334,752
Less: provision for impairment of trade receivables	**(101,658)**	(75,083)
Total trade receivables – net	**225,226**	259,669

The Group's trade receivables decreased by 13.3%, from RMB259.7 million as at 31 December 2011 to RMB225.2 million as at 30 June 2012. Such decrease was mainly attributable to reduced income from newspaper advertising and online services businesses. Trade receivables turnover days extended from 177 days for the year ended 31 December 2011 to 259 days for the six months ended 30 June 2012, primarily due to the continued implementation of austerity measures on the real estate industry by the PRC government resulted in the impact of monetary tightening on real estate advertising, that had resulted in much tighter market liquidity and led to longer payment time from the customers.

Assets held for sale

The properties for which the Group has beneficial interest and intends to sell are held under the line item "assets held for sale":

	As at 30 June 2012	As at 31 December 2011
	RMB'000	*RMB'000*
Properties held for sale	**33,796**	29,336

The Group recognised revenue from advertising services upon obtaining the beneficial interest of the relevant properties. Such revenue recognised from the relevant real estate customers were RMB5.1 million and RMB4.8 million for the year ended 31 December 2011 and for the six months ended 30 June 2012, respectively, which accounted for 1.0% and 2.8% of total revenue, respectively. For the same periods, the amount of proceeds received from the sales of such properties was RMB5.6 million and RMB0.4 million, respectively.

Trade payables

	As at 30 June 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Trade payables		
1 – 30 days	**2,775**	2,227
31 – 90 days	**3,168**	815
Over 90 days	**1,957**	1,105
Total	**7,900**	4,147

The Group's trade payables increased by 92.7%, from RMB4.1 million as at 31 December 2011 to RMB7.9 million as at 30 June 2012, primarily attributable to an increase of payable to the suppliers of newsprint. Trade payables turnover days increased from 6 days for the year ended 31 December 2011 to 22 days for the six months ended 30 June 2012, which was also due to the increase in purchase of newsprint during the period.

Indebtedness

The Group's indebtedness consists of obligations to the Group's lenders, including commercial banks and certain related parties and companies. The following table shows total borrowings at the dates indicated:

	As at 30 June 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Borrowings		
Short-term bank loans, secured	**44,000**	47,000
Other loan	**1,984**	2,528
Loan from related parties	**56,469**	68,757
Total	**102,453**	118,285

Total borrowings amounted to RMB118.3 million and RMB102.5 million as at 31 December 2011 and 30 June 2012, respectively.

Loans include borrowings secured by the Group's equipment and investment properties with carrying value amounted to RMB47 million for the year ended 31 December 2011. During the six months ended 30 June 2012, the pledge of assets for the borrowings was released.

Gearing ratio decreased from 8.4% as at 31 December 2011 to 7.6% as at 30 June 2012 primarily due to the repayment of borrowing during the period.

Capital commitments

The future aggregate minimum advertising payments under non-cancellable exclusive advertising agreements are as follows:

	As at 30 June 2012	As at 31 December 2011
	RMB'000	*RMB'000*
Not later than 1 year	**147,534**	252,750
Later than 1 year and not later than 5 years	**654,875**	623,250
Later than 5 years	**1,890,000**	1,992,750
	2,692,409	2,868,750

In addition to the future aggregate minimum advertising payments from above, on 15 May 2012, the Group has entered into a conditional sale and purchase agreement with a third party to purchase 34% of the issued share capital of Skybroad International Limited at a consideration of HK$90 million, in which HK$30 million (equivalent to RMB24.5 million) will be satisfied in cash. The acquisition was completed on 10 August 2012.

Contingent liabilities

In March 2008, Liaoning AoHai TianYi Media Advertisement Co., Ltd.*（遼寧奧海天一傳媒廣告有限公司）("Liaoning Aohai"), a wholly-owned subsidiary of the Company, and Shenyang Daily Agency*（瀋陽日報社）, entered into an agreement (the "Comprehensive Cooperation Contract"), pursuant to which Shenyang Daily Agency has granted Liaoning Aohai exclusive right to operate all aspects of advertising component of Shenyang Evening News' business, including selling all advertising spaces in its publication, providing selected content for inclusion in industry-specific weekly reviews and special editions to help attract advertisers, and organizing events. Details of the Comprehensive Cooperation Contract is disclosed in the "Business" section of the Company's prospectus dated 22 November 2010.

The Comprehensive Cooperation Contract has been renewed by Shenyang Evening News Media Corporation Limited*（瀋陽晚報傳媒有限公司）("Shenyang Media Corporation") (being the subsidiary of Shenyang Daily Agency and responsible for the operations of Shenyang Evening News（瀋陽晚報）) and Liaoning Aohai in accordance with its relevant clauses where such term has been extended commencing from 1 January 2011 and expiring on 31 December 2011.

On 26 July 2011, Shenyang Media Corporation unilaterally terminated the Comprehensive Cooperation Contract with Liaoning Aohai.

Liaoning Aohai received a summons issued by the Shenyang Intermediate People's Court in Liaoning Province*（遼寧省瀋陽市中級人民法院）(the "Intermediate People's Court") on 25 October 2011, where Shenyang Media Corporation claimed Liaoning Aohai for, among others, a total sum of RMB17,328,767 being the outstanding advertising fees payable by Liaoning Aohai to Shenyang Media Corporation (the "Case 1").

On 22 December 2011, Liaoning Aohai filed summons of claim to the Higher People's Court of Liaoning Province*（遼寧省高級人民法院）(the "Higher People's Court") against Shenyang Daily Agency and Shenyang Media Corporation, where Liaoning Aohai claimed Shenyang Daily Agency and Shenyang Media Corporation for, among others, a total sum of RMB105,579,352, being the outstanding advertising fees payable by Shenyang Daily Agency and Shenyang Media Corporation (the "Case 2").

On 8 March 2012, Liaoning Aohai has received a civil judgment issued by the Higher People's Court in relation to Case 2, pursuant to which the Higher People's Court decided to refer the case back to the Intermediate People's Court. As advised by the PRC legal counsel, Liaoning Aohai has lodged an appeal to the Supreme People's Court of the PRC (the "Supreme People's Court') on 13 March 2012 to request the Supreme People's Court to overrule the Higher People's Court's decision.

On 30 August 2012, Liaoning Aohai received a judgment of first instance awarded by the Intermediate People's Court in relation to Case 1, in which Liaoning Aohai was ordered to pay Shenyang Media Corporation RMB17,250,398 as advertising fees together with court fees within 10 days after the judgment becomes effective. Liaoning Aohai is entitled to lodge an appeal to the Higher People's Court within 15 days upon the issue of the judgment.

As advised by the PRC legal counsel, the verdict of first trail is yet to take effect and having considered all available facts, circumstances and legal advice from the PRC legal counsel, Liaoning Aohai will lodge an appeal to the Higher People's Court to seek to revoke the first instance judgment in due course.

The management believes that it is not probable that this litigation would result in a material outflow of economic benefits from the Group.

Accordingly, no provision for loss or provision for impairment of the RMB43,780,000 deposit and prepayment paid to Shenyang Media Corporation *(note 7)* has been made in respect of the litigation between the Group, and Shenyang Daily Agency and Shenyang Media Corporation, as at 30 June 2012.

The Company will make further announcement to inform its shareholders of further developments of the litigations as and when appropriate.

Human resources

As at 30 June 2012, the Group had approximately 1,174 full-time employees. Total staff costs including directors' remuneration for the six months ended 30 June 2012 was approximately RMB40.4 million (For the six months ended 30 June 2011: approximately RMB37.4 million). The Group offers competitive remuneration packages to its employees that include salaries, bonuses and share options to qualified employees.

The compensation of the directors is evaluated by the remuneration committee and the committee makes recommendations to the Board. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure, of the Group's senior management.

The Company operates an employee share option scheme and the purpose of which is to provide incentive or reward to eligible persons who provide services to the Company for their contribution and continuing efforts to promote the interests of the Company, and for such other purposes as the Board may approve from time to time.

Prospect of the Industry and the Group

Looking forward to the second half of 2012, the Twelfth Five-Year Plan of the PRC clearly stipulates that the country will continue to promote the healthy development of the advertising industry, "Advertising creation, advertising planning, advertising design and advertising production" was listed as one of the supported industries in the Guidance Catalogue for Industrial Structure Adjustment (2011 Version). Along with development plans for the advertising industry promulgated across the PRC at the provincial level, such national policies will provide a strong impetus and room for the development of the advertising industry. Therefore, despite the blows brought by weak external economy, there is still considerable room for the growth of the advertising industry. In long run, the ongoing rise in the overall spending power of consumers in mainland China would boost the development of the Company.

Leveraging its brand equity, geographical coverage and effective cross-media platform, the Group will continue to integrate and innovate new technologies; create a competitive integrated media service platform; seize opportunities in the constant development of the advertising industry in China; and offer its customers flexible and diverse forms of advertising media. The Group will strive to improve its operational efficiency in the internet, radio and television segments; develop more media partners; fully strengthen its internal construction; seek to further expand the businesses; and actively improve cost control in order to maximize growth in its results.

ShiFang Holding will endeavor to build up the comprehensive "ShiFang" advertising network that offers diverse advertising platforms and services to its customers. Being an integrated media service provider, the Group will continue to develop new technologies to develop the mobile internet and new media business. Meanwhile, with its fully balanced business foundation, the Group will consolidate and develop its existing businesses; optimize the allocation of resources; strive to realize stable and accelerated growth in overall operations; continue to provide its advertisers quality and comprehensive services; and create sustainable growth for its shareholders.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance and value of achieving high standards of corporate governance practices. The Board believes that good corporate governance is an essential element in maintaining and promoting shareholder value and investor confidence.

The Company has adopted the code provisions on Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Saved as disclosed below, the Board considers the Company has complied with the code provisions as set out in the CG Code.

CODE PROVISION A.2.1

Under code provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Chen Zhi, who acts as the chairman and chief executive officer of the Company, is responsible in pioneering the Company's distinctive business model and undertaking the main decision-making role in the management of the Company's overall operations and overseeing the strategic development of the Group. The Board will meet regularly to consider and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that the sufficient measures have been taken and it will not impair the balance of power and authority between the Board and the management.

CODE PROVISION E.1.2

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Chen Zhi, who acts as the chairman of the Company, was not able to attend the annual general meeting of the Company held on 22 May 2012 due to other business commitment. Instead, Mr. Yu Shi Quan, the executive director of the Company was appointed as the chairman of the Company during the annual general meeting.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by the directors of the Company of Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the directors of the Company. Specific enquiries have been made with all the directors of the Company and all of them confirmed and declared that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2012 and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee has been established in compliance with Rules 3.21 and Rules 3.22 of the Listing Rules and with written term of reference in compliance with the CG Code, the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee consists of three independent non-executive directors of the Company, namely Mr. Wong Heung Ming, Henry, Mr. Zhou Chang Ren and Mr. Zhuo Ze Yuan. Mr. Wong Heung Ming, Henry is the chairman of the Audit Committee, who has appropriate professional qualifications and experience in accounting matters. The Audit Committee has reviewed the Group's condensed consolidated interim financial information for the six months ended 30 June 2012 with no disagreement.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was successfully listed on the Main Board of the Stock Exchange on 3 December 2010 and raised net proceeds of RMB368.9 million through the Global Offering of its shares. As at 31 July 2012, RMB287.1 million have been used in the manner as described in the Prospectus and RMB81.8 million remained unutilized.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its listed shares during the six months ended 30 June 2012. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the six months ended 30 June 2012.

PUBLICATION OF ANNUAL RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.shifangholding.com) and the Stock Exchange (www.hkexnews.hk). An interim report of the Company for the six months ended 30 June 2012 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and make available on the abovementioned websites in due course.

By order of the Board
ShiFang Holding Limited
Chen Zhi
Chairman

Hong Kong, 30 August 2012

As at the date of this announcement, the executive directors of the Company are Mr. Chen Zhi (Chairman), Mr. Hong Pei Feng, Mr. Zhang Tie Zhu and Mr. Yu Shi Quan; the non-executive director of the Company are Mr. Wang Ping and Ms. Chen Min; the independent non-executive directors of the Company are Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry, Mr. Zhuo Ze Yuan and Mr. Cai Jian Quan.