
CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council of the PRC and became effective on 1 January 2002, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a PRC entity that provides telecommunications value-added services. Provision of mobile value-added services and products is classified as telecommunications value-added services, and a commercial operator of such services must obtain a Telecommunications Value-added Services Operation Licence from the appropriate telecommunications authorities in order to carry on any commercial provision of mobile value-added services and products business in the PRC. In July 2006, the MII issued a notice which prohibits holders of telecommunications value-added business operating licences from leasing, transferring or selling their licences to any foreign investors in any form, or providing any resources, sites or facilities to any foreign investors for their illegal operation of telecommunications businesses in the PRC. The notice also requires that holders of telecommunications value-added business operating licences or their shareholders directly own the domain names and trademarks used by such licence holders in their daily operations. For additional information regarding the notice mentioned here and other PRC regulations governing the industry in which the Group’s business operates, please refer to the section headed “Regulatory overview” in this prospectus.

As a result of the restrictions on the Group’s business set by the PRC laws and in order for the Group to be able to carry on its business in the PRC, the Group has entered into a series of structure contracts with Huadong Feitian and Kwaitonglian, severally, and their respective shareholders. These structure contracts enable the Group, through its wholly-owned subsidiary, Cash River, to exercise control over Huadong Feitian and Kwaitonglian and to consolidate these companies’ financial results into the Group’s results. Huadong Feitian and Kwaitonglian hold the requisite telecommunications value-added business operating licences. For details of the Group’s structure contracts arrangement with Huadong Feitian and Kwaitonglian, please refer to the section headed “History and development” in this prospectus.

Mr. Liu Xiaosong, an executive Director and one of the Controlling Shareholders, beneficially owns more than 30% equity interests in Huadong Feitian and [Mr. Lin Yizhong (alias Lin Hai), an executive Director, beneficially owns more than 30% equity interests in Kwaitonglian]. Accordingly, each of Huadong Feitian and Kwaitonglian are associates of Mr. Liu and [Mr. Lin] respectively and therefore connected persons of the Company. Furthermore, Ms. Cui Jingtao, a substantial Shareholder, is the spouse of Mr. Li Wei, a non-executive Director, and she holds a 25% equity interest in Huadong Feitian and she is a connected person of the Company. Certain transactions under the structure contracts would therefore be considered connected transactions and, unless an exemption is available under the Listing Rules, the Company must comply with the applicable reporting, announcement and independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the structure contracts are fundamental to the Group’s legal structure and business operations and are entered in the ordinary and usual course of business of the Group on normal

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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 Directors also believe that the Group’s structure whereby the financial results of Huadong Feitian and Kwaitonglian are consolidated into the Group’s financial statements as if they were the Group’s wholly-owned subsidiaries, and the economic benefit of their business flows to the Group, places the Group in a special position in relation to the connected transaction rules. Accordingly, notwithstanding that the structure contracts technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, the Directors consider that it would not be appropriate and that it would be unduly burdensome and impractical for all transactions under the structure contracts to be subject to strict compliance with the requirements set out by Chapter 14A of the Listing Rules, including, amongst other things, the periodic announcement and approval of the independent shareholders of the Company.

The Company’s legal advisers as to PRC laws have confirmed that the structure contracts among Cash River, Huadong Feitian and Kwaitonglian and their respective shareholders are valid and legally binding and are enforceable under, and will not result in any violation of, the existing PRC laws or regulations. The Sponsor is of the view that such continuing connected transactions are entered in the ordinary and usual course of business of the Group on normal commercial terms or terms more favorable to the Group and are fair and reasonable or to the advantage of the Group and in the interests of the Shareholders as a whole.

Accordingly, the Group has applied for, [and the Stock Exchange has granted,] a waiver from strict compliance with the requirements set out in Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the structure contracts for so long as Shares are listed on the Stock Exchange and with the following conditions:

- No change without independent non-executive Directors’ approval: Except as described below, no changes to the structure contracts will be made without the approval of the independent non-executive Directors.
- No change without independent shareholders’ approval: No changes to the structure contracts will be made without the approval of the Company’s independent shareholders. Once independent shareholders’ approval of any change has been obtained, no further periodic reporting, announcement or approvals of independent shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed.
- Economic benefits flexibility: The structure contracts continue to enable the Group to receive the economic benefits derived by Huadong Feitian and Kwaitonglian through: (i) the Group’s potential right (if and when PRC law releases the restriction on foreign investment in telecommunications value-added services) to acquire Huadong Feitian and Kwaitonglian’s equity interests and/or assets; (ii) the business structure under which the revenue generated by the cooperation between Cash River and Huadong Feitian and Kwaitonglian is mainly retained by Cash River; and (iii) Cash River’s right to govern the financial and operating policies as well as, in substance, all of the voting rights in the general meeting of Huadong Feitian and Kwaitonglian.

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- **Renewal and cloning:** On the basis that the Structure Contracts provide an acceptable framework for the relationship between the Group and subsidiaries, on one hand, and Huadong Feitian and Kwaitonglian, on the other hand, that framework may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company that the Group might wish to establish, without obtaining the approval of the Group’s shareholders, on substantially the same terms and conditions as described in the section headed “History and development” in this prospectus. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company that the Group may establish upon renewal and/or cloning of the Structure Contracts will be treated as the Group’s connected persons and transactions between these connected persons and the Group other than those under similar structure contracts shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.

- **Ongoing reporting and approvals:** The Group will disclose details relating to the structure contracts on an ongoing basis as follows:
 - The structure contracts in place during each financial period will be disclosed in the Company’s annual report and accounts in accordance with the relevant provision of the Listing Rules.

 - The independent non-executive Directors will review the structure contracts annually and confirm in the Company’s annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the structure contracts, have been operated so that the revenue generated by Huadong Feitian and Kwaitonglian and its subsidiaries has been mainly retained by Cash River; (ii) no dividends or other distributions have been made by Huadong Feitian and Kwaitonglian to the holders of their respective equity interests; and (iii) any new contracts entered into, renewed or reproduced between the Group and Huadong Feitian and Kwaitonglian during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company’s shareholders as a whole.

 - The Company’s auditors will carry out review procedures annually on the transactions carried out pursuant to the structure contracts and will provide a letter to the Directors with a copy to the Listing Division of the Stock Exchange, at least ten business days before the Company bulk prints its annual report, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant structure contracts and that no dividends or other distributions have been made by Huadong Feitian and Kwaitonglian to the holders of their respective equity interests.

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- For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, Huadong Feitian and Kuaitonglian will be treated as the Company’s wholly-owned subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of Huadong Feitian and Kuaitonglian and their respective associates will be treated as the Company’s “connected persons” (excluding for this purpose Huadong Feitian and Kuaitonglian) and transactions between these connected persons and the Group (including for this purpose Huadong Feitian and Kuaitonglian) other than those under the structure contracts shall comply with Chapter 14A of the Listing Rules.

- Huadong Feitian and Kuaitonglian will undertake that, for so long as the Shares are listed on the Stock Exchange, Huadong Feitian and Kuaitonglian will provide the Company’s management, Cash River and the Company’s auditors with full access to their relevant records for the purpose of the Company’s auditors’ review of the connected transactions.

In addition to the current structure contracts, there may be other contracts in the future between the Group and Huadong Feitian and Kuaitonglian. Given that the financial results of Huadong Feitian and Kuaitonglian are consolidated into the Group’s financial results, and given the relationship between the Group and Huadong Feitian and Kuaitonglian created by the structure contracts, transactions between the Group and Huadong Feitian and Kuaitonglian will be exempted from the “continuing connected transactions” provisions of the Listing Rules.