
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

OUR CONTROLLING SHAREHOLDER

Immediately following completion of the [●] and the Capitalisation Issue (but without taking into account Shares to be issued pursuant to the exercise of [the [●] or] options which may be granted under the Share Option Scheme), Mr. Shao will be our Controlling Shareholder holding [75%] of the issued share capital of our Company.

Apart from the connected transactions set out in the section headed “Connected transactions” in this document, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholder upon or shortly after the [●].

INFORMATION ON OTHER COMPANIES OWNED BY MR. SHAO

Immediately following completion of the Reorganisation, Mr. Shao remains interested or to have investment in the following companies (which are not members of our Group):

1. *Companies of investment holding nature*

Mr. Shao is currently the sole shareholder of each of Hero Enterprises Limited, 68.com Holdings Limited and Top Finance Holdings Limited, being companies incorporated in the British Virgin Islands on 18 February 2002, 20 September 2000 and 8 August 2003 respectively.

Each of Hero Enterprises Limited, 68.com Holdings Limited and Top Finance Holdings Limited is an investment holding company which has not been carrying on any material business operation or activities (other than (i) in the case of Hero Enterprises Limited, the holding of equity interest in E-starship until April 2007; (ii) in the case of Top Finance Holdings Limited, the holding of equity interest in City Howwhy until May 2007; and (iii) in the case of 68.com Holdings Limited, for name reservation purpose only) since the commencement of the Track Record Period.

2. *Companies which have been dormant since the commencement of the Track Record Period*

Mr. Shao is currently the sole shareholder of each of Modern Company Limited and Modern Mobile Digital Media Company Limited, which were incorporated in Hong Kong on 15 April 1998 and 4 December 2000 respectively. During the Track Record Period and up to the Latest Practicable Date, Modern Company Limited and Modern Mobile Digital Media Company Limited have been dormant. The relevant forms in connection with the deregistration of Modern Company Limited were filed with the Inland Revenue Department in July 2009. [It is currently expected that Modern Company Limited will be dissolved shortly after [●], while Modern Mobile Digital Media Company Limited would be kept for name reservation purpose only.]

China Yachting Communications Limited, a company incorporated in Hong Kong on 5 June 2003, is currently owned as to 50% by Mr. Shao [and as to the remaining 50% by an Independent Third Party]. During the Track Record Period and up to the Latest Practicable Date, China Yachting Communications Limited has been dormant. Before the Track Record Period, China Yachting Communications Limited produced one issue of a magazine which merely served as a test or dummy version, and has not been published subsequently. The relevant forms in connection with the deregistration of China Yachting Communications Limited were filed with the Inland Revenue Department and with the Companies Registry in Hong Kong in June 2009 and July 2009 respectively. [It is currently expected that China Yachting Communications Limited will be dissolved shortly after [●].]

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廣州現代移動數碼傳播有限公司 (Guangzhou Xiandai Yidong Shuma Chuanbo Company Limited*) (“**Guangzhou Xiandai**”), a company established in the PRC on 23 May 1996 by Mr. Shao and formerly known as 廣州現代電子商業網有限公司 (Guangzhou Xiandai Dianzi Shangyewang Company Limited*), is currently owned as to 80% by Mr. Shao and as to the remaining 20% by [Shanghai Senyin]. Guangzhou Xiandai was formerly engaged in software development, hardware trading, installation and maintenance. In 1999, Mr. Shao intended to focus on the advertising business and therefore, as the business scope of Guangzhou Xiandai was not related to the advertising business, Mr. Shao decided to cease its operations. On 8 August 2009 and as part of the Reorganisation, Guangzhou Modern Information and Shanghai Senyin entered into an equity transfer agreement whereby Guangzhou Modern Information disposed of its 20% equity interest in Guangzhou Xiandai at the consideration of RMB100,000. Since 1999 and during the Track Record Period up to the Latest Practicable Date, Guangzhou Xiandai has been dormant and has been kept for name reservation purpose only.

3. *Shanghai Senyin*

Shanghai Senyin was established in the PRC on 19 October 2005 to engage in the development of computer software, hardware and network technology; technology services, technology transfer and consultation; sale of computer software, hardware, network equipments, communication equipment, electronic products, cultural and office supplies, merchandise, craft and art gifts, jewellery; and design and production of advertisements. Shanghai Senyin was loss making during the Track Record Period. Prior to completion of the Reorganisation, the equity interest of Shanghai Senyin was owned as to 95% by Shanghai Yage (which held such interest on trust for Mr. Shao, pursuant to a confirmation for such trust arrangement dated 11 May 2009 and signed by Mr. Shao) and as to 5% by an Independent Third Party.

On 6 May 2009, in contemplation of the [●] and as part of the Reorganisation, Shanghai Yage and Mr. Shao entered into an equity transfer agreement whereby Shanghai Yage transferred the 95% equity interest in Shanghai Senyin to Mr. Shao at the consideration of RMB100,000.

Mr. Shao had nominated Shanghai Yage to hold the relevant equity interest in Shanghai Senyin on trust for Mr. Shao at the relevant times. Shanghai Yage exercised its rights as a shareholder of Shanghai Senyin in accordance with the instructions of Mr. Shao from time to time and received no compensation for acting as such nominee shareholder. Our PRC legal adviser has confirmed that the trust arrangement between Mr. Shao and Shanghai Yage is legally binding and enforceable between the parties under the PRC laws.

Reasons for not including the Excluded Group in our Group

Our Directors have considered that it is either unnecessary or it is not in the best interest of our Group to include the Excluded Group in our Group for the purpose of the [●] for the following reasons:

1. The principal activities being carried out by Shanghai Senyin are different from those of our Group. Inclusion of Shanghai Senyin in our Group will not create any synergy with the principal activities of our Group, but may divert our Group’s efforts and resources to less useful activities, which may not be in our interest for pursuing our principal businesses.
2. For the other companies which Mr. Shao has interest in after completion of the Reorganisation, they are either investment holding companies or have been dormant since the commencement of the Track Record Period.

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3. Mr. Shao directly made his capital injection into Shanghai Senyin upon Shanghai Senyin’s establishment and Shanghai Yage only held the relevant interest in Shanghai Senyin on trust for Mr. Shao while our Group was not entitled to the economic risks and rewards arising from the operating activities of Shanghai Senyin during the Track Record Period.

Taking into account the above reasons and in order to focus on the principal businesses of our Group, we have not included the entities of the Excluded Group as members of our Group. None of the financial results of the members of the Excluded Group have been accounted for in the combined financial information of our Group during the Track Record Period.

PRC Operational Entities

For the PRC Operational Entities which are regarded as deemed subsidiaries of our Group but in which the Company does not have actual shareholding, their equity interests are not directly or indirectly attributable to our Company due to the current restrictions under the PRC laws and/or regulations. Pursuant to the Business Operation Agreements, nominees of Zhuhai Technology (a member of our Group) are authorised to exercise the rights of shareholders of the PRC Operational Entities and to ensure that any dividend and/or capital gain derived from the equity interests in the PRC Operational Entities shall be paid to Zhuhai Technology as soon as practicable but in any event no later than three days upon receipt of the payment. Pursuant to the Option Agreements, Modern Media (HK) has been granted options to acquire the entire equity interest in the PRC Operational Entities when so permitted by the applicable PRC laws and regulations. Our Directors consider that the Contractual Arrangements are sufficient to ensure that the revenue and profits of the PRC Operational Entities are consolidated as subsidiaries of our Company and that the business model of our Group is in full compliance with all existing PRC laws and regulations and the provisions of the respective articles of association of the PRC Operational Entities.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

Save as otherwise disclosed in the section headed “Connected transactions” in this document, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholder upon or shortly after the [●]. Our Group is capable of carrying on our business independently of and does not place undue reliance on our Controlling Shareholder, taking into consideration the following factors:

Business independence

Mr. Shao [has entered] into a service agreement with our Company for a term of [three] years. He is committed to devote substantially all of his time to our Group. He has been a director of all members of our Group. Mr. Shao has been leading our operations and businesses, and responsible for overseeing the overall strategic development and soliciting business opportunities for our Group. He will continue to do so in accordance with the terms of the service contract [entered into] with our Company.

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Save for the related party transactions disclosed in note 27 of the accountants' report of our Company set out in Appendix I to this document, there were no business dealings between our Group and the members of the Excluded Group during the Track Record Period.

During the Track Record Period [and up to the Latest Practicable Date], our Group and Mr. Shao did not have any common, shared facilities or resources. Our Group has independent access to customers and sources of supplies for the production of the Magazines. Furthermore, each department of our Group has their own set of internal control system aiming to enhance their efficiency of business operations. Our Directors believe that our Group has not unduly relied on the Controlling Shareholder or his associates or the Excluded Group to carry on its business during the Track Record Period.

Management and administrative independence

Our Group and the Excluded Group (where applicable) are managed by different management teams. Save for Mr. Shao being the Chairman of the Company leading our operations and business, all essential management functions (such as financial and accounting management, invoicing and billing, research and development, human resources and information technology) have been and will be carried out by the other directors and management of our Group, without unduly requiring the support of Mr. Shao, his associates or the Excluded Group. Our Directors consider that our Group can operate independently from the Excluded Group.

Financial independence

During the Track Record Period [and up to the Latest Practicable Date], our Group has its own internal control and accounting system, accounting and finance department, independent treasury function for receiving cash/making payments and independent access to third party financing.

During the Track Record Period, the amount due from Mr. Shao to our Group amounted to approximately RMB23.5 million, RMB32.0 million, RMB49.4 million and RMB53.3 million as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 March 2009 respectively. Such amount due from Mr. Shao represented non-trading advance to Mr. Shao for his own finance not otherwise related to or in competition with the business of our Group. The Company will comply with the applicable requirements under the Listing Rules if such advance occurs after [●].

The above balances between our Group and Mr. Shao [were settled or paid in full before the Latest Practicable Date].

A personal guarantee has been given by Mr. Shao to an Independent Third Party in respect of a loan in the principal amount of US\$4 million granted to our Group by that Independent Third Party, which loan was fully drawn in 2007. Such personal guarantee is still outstanding. The lender, however, has given its in-principle consent to the release of such guarantee to be substituted, before or upon the [●], by replacement security to be given by any member of our Group. In addition, a bank loan granted to one of the PRC Operational Entities amounting to RMB10,418,000 as at 31 March 2009 was secured by a personal guarantee from Mr. Shao, a mortgage over an owned property of our Group in Beijing, the PRC as well as guarantee from one of the PRC Operational Entities. The personal guarantee from Mr. Shao will be released before or upon the [●].

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NON-COMPETITION UNDERTAKINGS

Undertakings given by Mr. Shao

Mr. Shao has confirmed that presently he is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with our business.

In accordance with the non-competition undertakings (“**Non-Competition Undertakings**”) contained in the deed of covenants dated [24] August 2009 and made between our Company and Mr. Shao, Mr. Shao has undertaken in favour of our Company that during the period in which he and his associates, individually or taken as a whole, remains as a controlling shareholder (as defined under the Listing Rules) of our Company:

- (a) if there is any project or new business opportunity that relates to the business activities engaged by our Group from time to time, he shall within a reasonable period of time refer such project or new business opportunity including the information in relation thereto to us (including the independent non-executive Directors) for consideration. The factors which our Directors would take into account when deciding whether or not our Group shall take up such new project or business opportunities include, among others, the costs and risks involved, the short-term and long-term benefits expected to be brought to our Group, possible compliance issues and whether such opportunities are in the interest of our Company and its Shareholders as a whole. The Non-competition Undertakings are expected to be effective in that Mr. Shao and/or his associates shall be entitled to pursue the potentially competing business opportunities only after the step of careful scrutiny and approval from the Board will have been taken, and that the principal terms by which Mr. Shao and/or his associates subsequently pursue shall be no more favourable than those initially considered by our Group. Notwithstanding his taking up of the new projects or business opportunities (if any), Mr. Shao shall, as a Director, always perform his duties in good faith and in the interest of the Company, and shall not allow his commitment to devote substantially all of his time to our Group be undermined in any way;
- (b) save otherwise as disclosed in paragraph (a) above and paragraph (c) below, he will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by our Group from time to time;
- (c) he will not (and he will procure his associates (excluding our Group) not to) invest or participate in any project or business opportunity mentioned above, unless such project or business opportunity shall have been rejected by us in Board meeting(s) with the participation of the independent non-executive Directors having been allowed a reasonable period of time to consider the subject matters and without the attendance by any Directors with beneficial interest in such project or business opportunity, in which resolutions have been duly passed by the majority of the independent non-executive Directors that our Company or relevant member of our Group has rejected such project or business opportunity and that the relevant associate(s) of Mr. Shao (excluding our Group) shall be entitled to accept or engage in such opportunities;
- (d) he shall not and shall procure his associates not to directly or indirectly engage or otherwise be interested in the business which is the same or similar to that carried on by our Group (otherwise than through our Group).

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The Non-Competition Undertakings will cease to have effect on the earlier of the date on which (a) Mr. Shao and his associates (individually or taken as a whole) cease to own 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as controlling shareholder of our Company (within the meaning ascribed to it under the Listing Rules from time to time) and do not have power to control the Board and there is at least one other Shareholder holding more Shares than Mr. Shao and his associates then taken together; or (b) the Shares cease to be listed on the Stock Exchange.

In addition, under the above deed of covenants, Mr. Shao has undertaken to our Company that he shall provide to our Company and/or our Directors (including the independent non-executive Directors) from time to time all information necessary (including his interests in any projects or business opportunities under paragraph (a) above (including any changes thereof), if any) for annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertakings. Mr. Shao has also undertaken to issue an annual confirmation to us on compliance with the terms of the Non-Competition Undertaking, his interests in any projects or business opportunities under paragraph (a) above (including any changes thereof), if any, and consenting to the disclosure of such confirmation in the annual reports of our Company, thereby enabling our Company to keep monitoring the relevant compliance by Mr. Shao.

Concerning the Non-Competition Undertakings,

- (a) the independent non-executive Directors would review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-Competition Undertakings by Mr. Shao and if any, the options, pre-emptive rights or first rights of refusals provided by Mr. Shao and/or his respective associates on its existing or future competing businesses;
- (b) our Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-Competition Undertakings either through annual report, or by way of announcement; and
- (c) our Company shall disclose in the corporate governance report of its annual reports on how the terms of the Non-Competition Undertakings are complied with and enforced.

Confirmation given by other Directors

Each Director confirms that save as disclosed in this document, he does not have any competing business with our Group. For Mr. Jiang Nanchun, [an independent non-executive Director] who is a shareholder in a company engaged in specialised media and advertising activities in China (the shares of which are traded on OTC Bulletin Board of the United States of America) and the chairman and chief executive of a leading digital media group that provides out-of-home media advertising platforms in the PRC (the shares of which are listed on NASDAQ), he is considered to be interested in a business which is likely to compete with our business.

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Corporate governance

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. We would adopt the following corporate governance measures in relation to managing potential conflict of interests (if any) between our Group and our Directors (including independent non-executive Directors and the Controlling Shareholder):

- (a) Each Director [has, pursuant to his service agreement or engagement letter, covenanted] with and undertaken to our Company that during the term of his service or appointment, he shall not, and shall procure that none of his associates shall, directly or indirectly, be engaged in or concerned with or interested in any business which is or may be in any respect in competition with the business carried on from time to time by our Group or any of the companies within our Group. However, the aforesaid restriction does not prohibit the holding (directly or through nominees) by a Director of any securities listed on any stock exchanges as long as not more than 5% of the total voting rights attaching to the securities of the same class shall be so held (or, if such investment or holding is over 5%, our Directors concerned should seek the Board’s prior written approval before making the relevant investment (with the relevant Director abstaining from voting)) and shall not restrict the holding of any securities of our Company. Subject to the exceptions as aforesaid, for a period of one year after the expiry or the termination of his service or appointment, a Director shall not, and shall procure that none of his associates will, directly or indirectly, engage or be engaged in Hong Kong or those regions and markets within the PRC or elsewhere in which any member of our Group operates or has operated any part of its business from time to time, whether directly or indirectly, in any business which is or may be in competition with the business carried on from time to time by our Group or any of the companies within our Group.

In principle, the Board will give its written approval for Directors to hold more than 5% of the total voting rights in any listed securities (“**Investee Company**”) when it considers that such holding will not prejudice the interest of the Company and its Shareholders as a whole. In particular, a balance of the following criteria will be taken into account:

- (1) the revenue contributed by the competing or possibly competing sector as compared with the total revenue of the Investee Company - if the contribution is insignificant, the Board may, on balance, be more inclined to allow the 5% or more shareholding in the Investee Company;
- (2) the shareholding structure of the Director concerned in the Investee Companies after such investment - if the Director concerned will become the single largest shareholder of the Investee Company, the Board may, on balance, be less inclined to allow the 5% or more shareholding in the Investee Company;
- (3) the entitlement to board seat by the relevant Director in the Investee Company - if the Director concerned will also be entitled a major portion of the board seat of the Investee Company, the Board may, on balance, be less inclined to allow the 5% or more shareholding in the Investee Company; and
- (4) other applicable factors (e.g. market sentiment, the development strategy of our Group at the material time) which the Board considers relevant from time to time.

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- (b) Where a Board meeting is to be held for considering proposed transactions in which the Controlling Shareholder/Director(s) has a material interest, the Controlling Shareholder and/or the relevant Director concerned may not vote on the resolutions of the Board approving the same and shall not be counted in the quorum for the voting so as to ensure the relevant matters will be considered by disinterested Directors only.

- (c) Where the advice from independent professional, such as that from financial adviser, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such independent professional will be made at our Company’s expenses.