
CONNECTED TRANSACTIONS

Upon [●], the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Company.

(1) Relationship between our Group and the Connected Persons

The relevant Connected Persons, with whom certain members of our Group [have entered] into continuing connected transactions (i.e. the transactions contemplated under the Contractual Arrangements), are as follows:

- (a) Mr. Shao: He is an executive Director and also the Controlling Shareholder of our Company. He is therefore a Connected Person of our Company under Rule 14A.11(1) of the Listing Rules.
- (b) The PRC Operational Entities: They are wholly owned by Mr. Shao. They are associates of Mr. Shao and are therefore Connected Persons of our Company under Rule 14A.11(4) of the Listing Rules.

Under the Listing Rules, for so long as Mr. Shao and/or the PRC Operational Entities remain as Connected Persons of our Company, the following transactions between our Group and the PRC Operational Entities (with some of the following transactions also involving Mr. Shao as a party) would constitute connected transactions upon the [●].

(2) Continuing connected transactions subject to the reporting, announcement and independent shareholders’ approval requirements

Background for the application

Under the current PRC laws, companies with foreign ownership are restricted from engaging in the publishing business in the PRC. As our Directors are of the view that the business operations of the PRC Operational Entities under the cooperation agreements entered into with the PRC Publishing Partners as a whole falls within the scope of business for which companies with foreign ownership are restricted from engaging under the prevailing PRC laws and regulations, the PRC Operational Entities have not been included as members of our Group in which our Company has direct and indirect equity interest so that the PRC Operational Entities can continue to engage in their existing business activities.

In view of the above, the Contractual Arrangements [have been] entered into such that we can conduct our business operations indirectly in the PRC through the PRC Operational Entities while complying with the applicable laws in the PRC.

CONNECTED TRANSACTIONS

Principal terms of the transactions

Brief details of the continuing connected transactions (i.e. the transactions contemplated under the Contractual Arrangements) [entered into] between the relevant Connected Persons and members of our Group, which terms have also been disclosed in this document (see the paragraph headed “Contractual Arrangements” in the section headed “Business”) are as follows:

(a) Management and Consultation Services Agreements

By three several Management and Consultation Services Agreements [entered] into between Zhuhai Technology and

- (i) Guangzhou Modern Information, Guangzhou Modern Books, Zhuhai Yinhu and Zhuhai Modern Zhimei (collectively the “**Publishing and Investment Holding Entities**”);
- (ii) Shanghai Gezhi, Beijing Yage Zhimei, Shenzhen Yage Zhimei and Guangzhou Yage (collectively the “**Sales Entities**”);
- (iii) Shanghai Yage and Beijing Yage (collectively the “**Production Entities**”);

the PRC Operational Entities [have engaged] Zhuhai Technology on an exclusive basis to provide consultation services in the management, sales and marketing, enterprise management and other supporting services in connection with the PRC Operational Entities’ business including the exclusive management and consultation, customer management and marketing consultation, enterprise management (including accounting and financial reporting) and consultation, staff training, magazine content and information provision, exclusive planning, consultation and recommendation for magazine arrangement, design and printing; planning, consultation and recommendation for magazine distribution, and other consultation and supporting services permitted under the PRC laws.

In consideration of the provision of the aforementioned services by Zhuhai Technology, each of the PRC Operational Entities agrees to pay to Zhuhai Technology fees on an annual basis in arrears. Fees payable to Zhuhai Technology by the PRC Operational Entities will be equivalent to the total revenue less all the related costs, expenses and taxes of the respective PRC Operational Entities, as audited by such certified public accountants of the PRC. To enable our Group to capture the economic benefits from the PRC Operational Entities to the fullest extent, no maximum aggregate annual value will be set for such fees payable by the PRC Operational Entities to Zhuhai Technology.

Each of the Management and Consultation Services Agreements [has become effective when they were executed on [24] August 2009] and will remain effective for a perpetual term. The Management and Consultation Services Agreements are renewable, unilaterally, upon Zhuhai Technology’s written confirmation that the term be extended.

CONNECTED TRANSACTIONS

(b) Equity Pledge Agreements

By ten several Equity Pledge Agreements [entered] into between Zhuhai Technology and

- (i) Mr. Shao (in relation to the pledge of the equity interests in Guangzhou Modern Information);
- (ii) Mr. Shao and Guangzhou Modern Information (in relation to the pledge of the equity interests in Guangzhou Modern Books);
- (iii) Mr. Shao and Guangzhou Modern Information (in relation to the pledge of the equity interests in Zhuhai Yinhu);
- (iv) Zhuhai Yinhu (in relation to the pledge of the equity interests in Zhuhai Modern Zhimei);
- (v) Zhuhai Modern Zhimei (in relation to the pledge of the equity interests in Shanghai Gezhi);
- (vi) Zhuhai Modern Zhimei (in relation to the pledge of the equity interests in Beijing Yage Zhimei);
- (vii) Zhuhai Modern Zhimei (in relation to the pledge of the equity interests in Shenzhen Yage Zhimei);
- (viii) Zhuhai Modern Zhimei (in relation to the pledge of the equity interests in Guangzhou Yage);
- (ix) Guangzhou Modern Information and Guangzhou Modern Books (in relation to the pledge of the equity interests in Shanghai Yage);
- (x) Guangzhou Modern Information and Guangzhou Modern Books (in relation to the pledge of the equity interests in Beijing Yage);

the payment of consultations services fees to Zhuhai Technology under the Management and Consultations Services Agreements is secured in that Zhuhai Technology is entitled to exercise its rights to sell the pledged equity interests on occurrence of any non-payment of such fees. None of the equity interests in the PRC Operational Entities can be pledged or transferred unless otherwise with prior consent from Zhuhai Technology. Furthermore, Zhuhai Technology is entitled to all dividends derived from the pledged equity interests in the PRC Operational Entities.

The Equity Pledge Agreements [has become effective when they were executed on [24] August 2009]. The pledges [created] under the Equity Pledge Agreements [will become effective] upon such pledges having been duly registered in the PRC Operational Entities' register of members and having been duly registered with the relevant Administration for Industry and Commerce of the PRC in accordance with the PRC Property Rights Law. The pledges will remain in full effect during the term of the Management and Consultation Services Agreements.

CONNECTED TRANSACTIONS

(c) Business Operation Agreements

Three several Business Operation Agreements [have been entered] into between Zhuhai Technology and

- (i) Mr. Shao and the Publishing and Investment Holding Entities;
- (ii) Zhuhai Modern Zhimei and the Sales Entities;
- (iii) Guangzhou Modern Information, Guangzhou Modern Books and the Production Entities.

Pursuant to the Business Operation Agreements, no material business transaction can be entered into by the PRC Operational Entities without the prior written consent of Zhuhai Technology. Furthermore, the PRC Operational Entities shall appoint individuals as nominated by Zhuhai Technology to be their directors and key management as and when Zhuhai Technology sees fit. Furthermore, Zhuhai Technology or its nominees is entitled to exercise their rights as they were the shareholder of the PRC Operational Entities. Any dividend and/or capital gain derived from the equity interests in the PRC Operational Entities shall also be paid to Zhuhai Technology.

Each of the Business Operation Agreements [has become effective when they were executed on [24] August 2009] and will remain effective for a perpetual term. The Business Operation Agreements are renewable upon Zhuhai Technology’s written confirmation that the term be extended.

(d) Option Agreements

Three several Option Agreements [have been entered into] between Modern Media (HK) and

- (i) Mr. Shao and the Publishing and Investment Holding Entities;
- (ii) Zhuhai Modern Zhimei and the Sales Entities;
- (iii) Guangzhou Modern Information, Guangzhou Modern Books and the Production Entities.

Pursuant to the Option Agreements, Modern Media (HK) has been granted options to acquire the entire equity interest in the PRC Operational Entities at nil consideration or the minimum amount as permitted by the applicable PRC laws. Subject to compliance with the PRC laws, such options may be exercised at any time and in any manner at the sole discretion of Modern Media (HK). Prior to the exercise of such options, the respective registered capital or assets, business or revenues of the PRC Operational Entities shall not be reduced or disposed of unless with the prior consent from Zhuhai Technology. Any dividend, capital gain and/or distributable reserve and proceeds from the realisation of any assets by the PRC Operational Entities which are distributable in accordance with applicable laws and the constitutional documents of the PRC Operational Entities shall also be transferred to Zhuhai Technology.

CONNECTED TRANSACTIONS

Each of the Option Agreements [has become effective when they were executed on [24] August 2009] and will only expire on the date on which all the equity interests in the PRC Operational Entities are transferred to Modern Media (HK) and/or its nominees.

(e) Proxy Agreements

Three several Proxy Agreements [have been entered into] between Zhuhai Technology and

(i) Mr. Shao and Guangzhou Modern Information;

(ii) Mr. Shao and Zhuhai Modern Zhimei;

(iii) Mr. Shao, Guangzhou Modern Information and Guangzhou Modern Books.

Before the options to acquire the entire equity interests in each of the PRC Operational Entities are exercised under the Option Agreements, our Group is authorised under the Proxy Agreements to exercise its rights in the PRC Operational Entities as if it were the ultimate beneficial owner of the PRC Operational Entities.

Each of the Proxy Agreements [has become effective when they were executed on [24] August 2009] and will remain effective during the term of the Business Operation Agreements.

(f) Trademark Transfer Agreement

The Trademark Transfer Agreement [has been entered into] between Zhuhai Technology and Guangzhou Modern Information. An option is granted to Zhuhai Technology to acquire certain trademarks in relation to the PRC Magazines (to be registered under the name of Guangzhou Modern Information) and its business at a nominal consideration of RMB1 or the minimum amount as required by the applicable PRC laws. Before such option is exercised, Zhuhai Technology and its nominees may use the trademarks free from payment of royalty. Guangzhou Modern Information has been restrained from licensing the trademarks to any third party without Zhuhai Technology's prior written consent.

The Trademark Transfer Agreement [has become effective when it was executed on [24] August 2009] and will remain effective for a perpetual term.

The purposes of the Contractual Arrangements are to ensure that (i) the business of the PRC Operational Entities can be fully managed by Zhuhai Technology; (ii) Zhuhai Technology can effectively control the economic benefits derived from the PRC Operational Entities; and (iii) any possible leakages of assets and values to the registered equity interest holders of the PRC Operational Entities is prevented.

(3) Reasons for this application and the view of our Directors on the continuing connected transactions

As advised by the PRC legal adviser to our Company in connection with the [●], the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under the current PRC laws and that in the event of any breach or default by any one of Mr. Shao or the PRC Operational Entities, Zhuhai Technology can take legal actions against any one of them. The Directors confirm that when formulating the Contractual Arrangements, they have

CONNECTED TRANSACTIONS

considered, amongst others, the business models of other listed companies of the publication or media industry with similar operations in the PRC, which are companies with structures that are analogous to the structure as contemplated by the Contractual Arrangements. To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries and in particular, making reference to the contractual arrangements in place in other publication and media companies already listed on the Stock Exchange, the Contractual Arrangements are not unique but appear to be a common arrangement by the companies in the publication and media industry in the PRC that are operated and ultimately owned by foreign holding company. Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations and are on normal commercial terms or terms more favourable to our Group and are fair and reasonable or to the advantage of our Group and are in the interests of the Shareholders as a whole. Our Directors also believe that our Group’s structure whereby the financial results of the PRC Operational Entities are consolidated into our Group’s financial statements as if they were our Group’s wholly-owned subsidiaries, and the economic benefit of their business flows to our Group, places our Group in a special position in relation to the connected party transaction rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of our Company, for all transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of the independent Shareholders.

(4) Application for and conditions of waiver

In view of the above, we have applied to the Stock Exchange pursuant to Rule 14A.42(3) of the Listing Rules for, and the Stock Exchange [has granted,] a waiver from (i) strict compliance with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to Zhuhai Technology under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) No change without independent non-executive Directors’ approval: No changes to the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (b) No change without independent Shareholders’ approval: Save as described in paragraph (d) below, no changes to the Contractual Arrangements will be made without the approval of our Company’s independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.
- (c) Economic benefits flexibility: The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operational Entities through:
 - (i) our Group’s potential right (if and when so allowed under the applicable PRC laws) to

CONNECTED TRANSACTIONS

acquire the equity interests in each of the PRC Operational Entities; (ii) the business structure under which the revenue generated by the PRC Operational Entities is substantially retained by Zhuhai Technology (such that no annual caps shall be set on the amount of services fees payable to Zhuhai Technology under the Management and Consultation Services Agreements); and (iii) Zhuhai Technology’s right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operational Entities.

- (d) Renewal and cloning: On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and the PRC Operational Entities, 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 (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as described under paragraph (2) above. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by our Group for expansion into the market in second tier cities in the PRC and/or for accommodating management staff in different first tier cities in the PRC due to potential business growth. When the term of operation of the relevant PRC Operational Entities as set out in their respective operating licence comes to an end in future, our Group may also establish new companies as and when considered necessary. 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 (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as our Group’s Connected Persons and transactions between these Connected Persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.
- (e) Ongoing reporting and approvals: our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
1. The Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provision of the Listing Rules.
 2. Our Company’s independent non-executive Directors will review the Contractual Arrangements annually and confirm in our 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 Contractual Arrangements, have been operated so that the revenue generated by the PRC Operational Entities has been substantially retained by Zhuhai Technology; (ii) no dividends or other distributions have been made by the PRC Operational Entities to the holders of their respective equity interests which are not otherwise subsequently assigned / transferred to our Group; and (iii) any new contracts entered into, renewed

CONNECTED TRANSACTIONS

or reproduced between our Group and the PRC Operational Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.

3. Our Company’s auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten business days before our Company bulk prints its annual report, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operational Entities to the holders of their respective equity interests which are not otherwise subsequently assigned / transferred to our Group.
4. For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the PRC Operational Entities will be treated as our Company’s wholly-owned subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the PRC Operational Entities and their respective associates will be treated as our Company’s “connected persons” (excluding for this purpose the PRC Operational Entities) and transactions between these connected persons and our Group (including for this purpose the PRC Operational Entities) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.
5. The PRC Operational Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the PRC Operational Entities will provide our Group’s management and our Company’s auditors with full access to their relevant records for the purpose of our Company’s auditors’ review of the connected transactions.

(5) Confirmation from the [●]

The [●] has reviewed the relevant document and information provided by our Group, has participated in the due diligence and discussions with our management and our PRC legal adviser in connection with the [●] and has obtained necessary representations and confirmations from our Company and our Directors. Based on the above, the [●] is of the view that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations, and are a common arrangement by the companies in the publication and media industry in the PRC that are operated and ultimately owned by foreign holding company.

The [●] is also of the view that the terms of the agreements constituting the Contractual Arrangements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole. With respect to the term of the relevant agreements constituting the Contractual Arrangement which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the business of the PRC Operational Entities can be fully managed by Zhuhai Technology; (ii) Zhuhai Technology can effectively control the economic benefits derived from the PRC Operational Entities; and (iii) any possible leakages of assets and values to the registered equity interest holders of the PRC Operational Entities is prevented, on an uninterrupted basis.