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MODERN MEDIA HOLDINGS LIMITED

現代傳播控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 72)

DISCLOSABLE TRANSACTION: ACQUISITION OF 51% INTEREST IN THE TARGET COMPANY BY WAY OF SUBSCRIPTION

On 8 April 2019 (after trading hours), the Subscriber (an indirect wholly-owned subsidiary of the Company), Shanghai Shangzhao and the Shanghai Shangzhao Existing Shareholders entered into the Investment Agreement, pursuant to which the Subscriber conditionally agreed to subscribe for RMB2,365,500 in the registered capital in Shanghai Shangzhao, representing 51% of its enlarged registered capital, at a consideration of RMB15,000,000. At or before the Completion, Shanghai Zhongshe will become wholly owned by Shanghai Shangzhao. The Shanghai Shangzhao Group is principally engaged in the operation of galleries and cafes, organisation of photography exhibitions, operation of online shop and physical stores for sales of photography artworks, all under the “BROWNIE Art Photography” brand in the PRC. Subject to and upon the completion of the Acquisition, both Shanghai Shangzhao and Shanghai Zhongshe shall become non wholly-owned subsidiaries of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 8 April 2019 (after trading hours), the Subscriber (an indirect wholly-owned subsidiary of the Company), Shanghai Shangzhao and the Shanghai Shangzhao Existing Shareholders entered into the Investment Agreement. Pursuant to the Investment Agreement, the Subscriber conditionally agreed to subscribe for RMB2,365,500 in the registered capital in Shanghai Shangzhao, representing 51% of its enlarged registered capital. At or before the Completion, Shanghai Zhongshe will become wholly owned by Shanghai Shangzhao. Subject to and upon the completion of the Acquisition, both Shanghai Shangzhao and Shanghai Zhongshe shall become non wholly-owned subsidiaries of the Company.

The Shanghai Shangzhao Group principally engaged in the operation of galleries and cafes, organisation of photography exhibitions, operation of online shop and physical stores for sales of photography artworks, all under the “BROWNIE Art Photography” brand in the PRC.

THE INVESTMENT AGREEMENT

The principal terms of the Investment Agreement are summarised as follows:

Date	: 8 April 2019
Subscriber	: The Subscriber, an indirect wholly-owned subsidiary of the Company principally engaged in the business of organising exhibitions, and operation of retail shops, restaurants and providing other related services.
Issuer	: Shanghai Shangzhao, a limited company incorporated in the PRC. At or before the Completion, Shanghai Zhongshe will become wholly owned by Shanghai Shangzhao.
Other parties to the Investment Agreement	: Shanghai Shangzhao Founding Shareholders (who together held a total of 88% of the registered capital in Shanghai Shangzhao as of the date of the Investment Agreement) also entered into the Investment Agreement, under which they agreed to give certain warranties and undertakings (including non-compete undertakings) in favour of the Subscriber/Shanghai Shangzhao in connection with the Acquisition.

To the best of the Directors' knowledge, information and belief of the Directors, after having made all reasonable enquiries, each of Shanghai Shangzhao and its ultimate beneficial owners are Independent Third Parties of the Company and its connected persons.

The Acquisition

As at the date of the Investment Agreement, the registered capital of Shanghai Shangzhao was RMB2,272,700. Pursuant to the Investment Agreement, the Subscriber conditionally agreed to subscribe for RMB2,365,500 in the registered capital in Shanghai Shangzhao, representing 51% of its enlarged registered capital, at a consideration of RMB15,000,000.

The amount of investment of RMB15,000,000 shall only be used for the business development of Shanghai Shangzhao, but not for repaying its debts.

At or before the Completion, Shanghai Zhongshe will become wholly owned by Shanghai Shangzhao. Subject to and upon the completion of the Acquisition, both Shanghai Shangzhao and Shanghai Zhongshe shall become non wholly-owned subsidiaries of the Company.

The consideration of the Acquisition

Pursuant to the Investment Agreement, the consideration of the Acquisition payable by the Subscriber to Shanghai Shangzhao shall be RMB15,000,000, amongst which: (i) RMB6,000,000 shall be paid by the Subscriber to Shanghai Shangzhao within 3 Business Days after the signing of the Investment Agreement; (ii) RMB6,000,000 shall be paid by the Subscriber to Shanghai Shangzhao on or before the first Business Day in January 2020; and (iii) the remaining RMB3,000,000 shall be paid by the Subscriber to Shanghai Shangzhao on or before the first Business Day in July 2020.

The consideration will be funded by the internal resources and bank loans of the Group. The consideration was determined after arm's length negotiations among the parties to the Investment Agreement on normal commercial terms with reference to, among other things, the financial conditions and prospects of Shanghai Shangzhao and Shanghai Zhongshe as at 31 December 2018. The Acquisition will allow the Group to have a majority stake in Shanghai Shangzhao and the reasons as set out in the section headed "Reasons for and benefits of the Acquisition" below.

Conditions Precedent

Completion of the Acquisition under the Investment Agreement is conditional upon, among others, the following Conditions Precedent:

- (1) the Subscriber being satisfied with the results of the due diligence towards Shanghai Shangzhao, including but not limited to commercial, technological, financial and legal aspects;
- (2) in connection with the subscription in the registered capital of Shanghai Shangzhao, the Subscriber having passed all assessments and reviews, and obtained all relevant approvals and consents (including but not limited to approval from its board of directors and shareholder(s));
- (3) Shanghai Shangzhao having provided documents and information to the satisfaction of the Subscriber, including but not limited to (a) decisions of the shareholders and board of directors/executive director of Shanghai Shangzhao in connection with approving the subscription; (b) the amended articles of association of Shanghai Shangzhao in connection with the subscription; and (c) any other documents as required by the Subscriber;
- (4) the Subscriber having received all relevant third parties' consent (in form and substance to the satisfaction of the Subscriber) necessary for the proposed increase in the registered capital in Shanghai Shangzhao and to the transactions contemplated under the Investment Agreement, including but not limited to such consent(s) from any governmental authorities or third parties (including but not limited to bank(s) and creditor(s));
- (5) all Shanghai Shangzhao Existing Shareholders having waived their respective rights in subscribing for the increase in the registered capital in Shanghai Shangzhao as contemplated under the Investment Agreement;
- (6) the representations and warranties provided by any of the Shanghai Shangzhao Founding Shareholders and Shanghai Shangzhao remaining true, accurate, complete and not misleading when they were made, and remain true, accurate, complete and not misleading on the date of Completion with the same effect as if they were made on such date; and any undertaking and promise made by any of the Shanghai Shangzhao Founding Shareholders and Shanghai Shangzhao having been fulfilled on or before the date of Completion;
- (7) no laws or governmental orders having been formulated, promulgated, implemented or passed by any governmental authorities, which may lead to the transactions contemplated under the Investment Agreement being unlawful or in any other way restricting or prohibiting such transactions;

- (8) parties to the Investment Agreement having duly signed all transaction documents and delivered the original copies of such documents to the Subscriber;
- (9) the articles of association of Shanghai Shangzhao having been amended, duly signed and taken effect in the form to the satisfactory of the Subscriber;
- (10) the core employees as stated in the Investment Agreement having signed agreements for employment and agreements in relation to confidentiality, anti-competition and ownership of intellectual property rights with Shanghai Shangzhao in the form and substance to the satisfactory of the Subscriber;
- (11) there having been no existing or potential claims against Shanghai Shangzhao or the Shanghai Shangzhao Founding Shareholders filed by or filed with any governmental authorities, which (in the reasonable and bona fide opinion of the Subscriber) may restrict the transactions contemplated under the Investment Agreement or causing material adverse effect to such transactions, and may lead to such transactions becoming unable to materialize, unlawful or causing material adverse effect to such transactions; and
- (12) there having been no events, either individually or collectively, which have a material adverse effect on the transactions contemplated under the Investment Agreement; and there having been no reasonable expectation of such events.

The Subscriber is entitled to waive any Conditions Precedent in favour of Shanghai Shangzhao and/or the Shanghai Shangzhao Founding Shareholders, but will exercise such right to waiver only under circumstances which the [Company/Subscriber] considers it to be in the interest of the Company and its shareholders taken as a whole.

Completion

Completion shall take place on the 5th Business Day after the last outstanding Condition Precedent to the Investment Agreement shall have been fulfilled or waived (or such other date as the Subscriber shall notify the other parties in writing).

Management of Shanghai Shangzhao

Pursuant to the Investment Agreement, the Shanghai Shangzhao Founding Shareholders may nominate two directors to the board of directors of Shanghai Shangzhao and the Subscriber may nominate two directors. One of the two directors nominated by the Subscriber shall also be the chairman of the board of directors of Shanghai Shangzhao, who is entitled to have a casting vote in case of equality of vote among the directors.

Save and except for significant matters that affect Shanghai Shangzhao (including but not limited to the business plan, investment plan and principal businesses, change in capital structure, issue of bonds or securities, entering into material transactions, merger and acquisitions) which shall be implemented only with both approval from board of directors and prior unanimous consent of the Subscriber and the Shanghai Shangzhao Founding Shareholders, other matters and affairs of Shanghai Shangzhao shall be managed by its board of directors.

Apart from the above, two of the Shanghai Shangzhao Founding Shareholders shall be the general manager and vice general manager of Shanghai Shangzhao for handling the business operational matters, and the Subscriber may nominate a financial controller to monitor and allocating the funds of Shanghai Shangzhao.

Information Rights

Pursuant to the Investment Agreement, the Subscriber is entitled to inspect the operation status of Shanghai Shangzhao and communicate with its employees, and Shanghai Shangzhao shall provide records, information and other materials (including but not limited to financial statements and annual budgets) relating to its commercial, financial or other aspects of Shanghai Shangzhao immediately upon the request of the Subscriber.

Redemption Rights

Pursuant to the Investment Agreement, upon the occurrence of any of the following repurchase triggering events, the Subscriber shall be entitled to request (a) the Shanghai Shangzhao Founding Shareholders to purchase part or all of the equity interest held by the Subscriber and/or (b) Shanghai Shangzhao to repurchase part or all of the equity interest held by the Subscriber by way of capital reduction or other means permitted by law:

- (1) material breach of the Investment Agreement, breach of any representations or warranties, or any breach of any duties before Completion and/or undertakings or duties after Completion by the Shanghai Shangzhao Founding Shareholders or Shanghai Shangzhao, and such breach has not been remedied or the Subscriber has not been compensated within 15 days after the Subscriber's notice of the breach.

In the event of such purchase or repurchase, the relevant price of the equity interest involved shall be calculated based on the following formula:

$$\text{Relevant price} = \text{Total investment amount} \times (\text{registered capital proposed to be purchased or repurchase/the entire registered capital of Shanghai Shangzhao after the Completion})$$

Pre-emptive rights, right of first refusal and tag-along rights

Pursuant to the Investment Agreement, the Subscriber enjoys certain pre-emptive rights, first right of refusal and tag-along rights as summarised as follows:

- Pre-emptive rights : In the event of increase of registered capital of or issue of securities by Shanghai Shangzhao to a potential investor, the Subscriber shall be entitled to have the priority to contribute to such increase in registered capital or subscribe for the securities issued (such portion of contribution or subscription shall be equivalent to the Subscriber's percentage shareholding in Shanghai Shangzhao) under the same price and same terms and conditions as the potential investor. Such pre-emptive rights shall prevent the Subscriber's equity interest in Shanghai Shangzhao from being diluted.
- Right of first refusal and tag-along rights : If any Shanghai Shangzhao Founding Shareholder(s) intends to transfer part or all of its equity interest in Shanghai Shangzhao to other shareholders or other third parties, the Subscriber shall be entitled to, at its option: (a) have the priority to purchase part or all of the equity interest intended to be transferred on the same terms and price as the proposed transfer; or (b) have the priority over the proposed vendor(s) to transfer an equivalent amount or part of the equity interest intended to be transferred on the same terms and price as the proposed transfer.

Distribution in the event of liquidation

Pursuant to the Investment Agreement, in the event of the liquidation, dissolution or closure of business of Shanghai Shangzhao, after Shanghai Shangzhao settled the fees for liquidation, employee's wages, social insurance fees and statutory compensations pursuant to the law, the Subscriber shall (if permitted by applicable PRC laws and regulations and subject to necessary approvals from the PRC government) be entitled to the following distributions: (i) an amount equivalent to the total investment amount under the Investment Agreement (being RMB15,000,000); (ii) an amount calculated based on 10% annual interest on the total investment amount for the period from the date of the Investment Agreement up to the date of receipt of the remaining assets for distribution by Shanghai Shangzhao; and (iii) all dividends which are declared and approved by the shareholders of Shanghai Shangzhao to be paid to the Subscriber but then remain unpaid.

Share incentive plan

The parties agreed under the Investment Agreement that, after the Completion, Shanghai Shangzhao shall issue 15% of its registered capital (based on the enlarged registered capital after such issue) for the purpose of implementing a share incentive plan. Details of such share incentive plan shall be further agreed among the Subscriber and the Shanghai Shangzhao Founding Shareholders.

INFORMATION ON SHANGHAI SHANGZHAO AND SHANGHAI ZHONGSHE

Shanghai Shangzhao is a limited company incorporated in the PRC. At or before the Completion, Shanghai Zhongshe will become wholly owned by Shanghai Shangzhao. The Shanghai Shangzhao Group is principally engaged in the operation of galleries and cafes, organisation of photography exhibitions, operation of online shop and physical stores for sales of photography artworks, all under the “BROWNIE Art Photography” brand in the PRC. As at the date of this Announcement, the Shanghai Shangzhao Group operated a flagship store in Shanghai and three galleries in each of Shanghai, Beijing and Shenzhen.

Set out below is a summary of certain financial information of Shanghai Shangzhao and Shanghai Zhongshe for the two years ended 31 December 2018:

	As at/for the year ended 31 December 2017		As at/for the year ended 31 December 2018	
	Shanghai Shangzhao (audited) RMB'000	Shanghai Zhongshe (unaudited) RMB'000	Shanghai Shangzhao (audited) RMB'000	Shanghai Zhongshe (unaudited) RMB'000
Total assets	5,290	776	6,632	3
Net assets (liabilities)	2,495	(4)	(1,752)	(704)
Revenue	473	1,652	2,780	1,556
Net profit (loss) before taxation	(3,843)	120	(4,351)	210
Net profit (loss) after taxation	(3,843)	120	(4,351)	210

Subject to and upon completion of the Acquisition, the Subscriber will hold 51% of the equity interest in Shanghai Shangzhao, which will in turn hold the entire equity interest in Shanghai Zhongshe. As a result of the Acquisition, the financial results of both Shanghai Shangzhao and Shanghai Zhongshe will be accounted for and consolidated into the financial results of the Group as the Company's subsidiaries.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal activity of the Company is investment holding. The Group is principally engaged in the provision of multi-media advertising services, printing and distribution of magazines, provision of advertising-related services, artwork trading and related services and restaurant operation.

As stated in the annual results announcement for the year ended 31 December 2018 of the Company dated 22 March 2019, the Group will continue to extend its business strategy towards the "4-M" direction, i.e. "Modern Publishing", "Modern Digital", "Modern Space" and "Modern Art". The Directors are of the view that the business development of the Shanghai Shangzhao Group under the "Brownie" brand, involving the operation of its Shanghai flagship store and its galleries in Shanghai and Shenzhen, complements the Group's strategy to its "Modern Space" (project involving cultural and creative spaces) and "Modern Art" (the operation of art exhibition, high-tech art club, art education, art travel, art derivatives, etc. in first-tier cities of the PRC). By working with the Shanghai Shangzhao Group with the "Brownie" brand, the Group can achieve synergy benefits.

Our Philosophy in Investing in the Shanghai Shangzhao Group

Under the philosophy of "Unceasing Modernism", our Group is undergoing ceaseless evolution to pursue modernity. The evolution involves three development stages, namely Paper-Zine, Mobile-Zine and Space-Zine.

The Group devotes itself to pursuing and promoting visual culture and the aesthetics of living and aims to create a fashion symbol – "To live with a wider vision, photography is a form of art but also a form of life".

A good photo reflects the true picture of our daily life, which is analogous to a specific genre of music or a particular person that accompanies us in life. It is the Group's belief that photography is a stunning and spectacular medium for expressing ourselves. A good photo always comes with elegance.

Through spreading a new form of lifestyle immersed in popular culture, the Group aims to provide our consumers with an one-stop space and platform for leisure and enjoyment. In this Post-Internet Era, a new form of retail business has arisen by integrating arts, the internet and photography, which can be performed in the one-stop space and platform. By blending traditional humanistic ideas with fashionable cultural creativity and digital culture, the concept of consumption and retail are integrated, and the aesthetics of living in the digital age can be realised.

Modern Media is committed to establishing a fashion symbol – “To live with a wider vision, photography is a form of art but also a form of life”. We will explore a new commercial model to create a new business platform or nest for cultural enthusiasts by developing the ZiWU (誌屋) and ZiWUxBrownie (誌舖).

The terms of the Investment Agreement were determined after arm’s length negotiations between the parties thereto. In light of the above reasons, the Directors (including the independent non-executive Directors) are of the view that the Acquisition is in the interests of the Company and that the terms of the Investment Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the subscription of RMB2,365,500 in the registered capital in Shanghai Shangzhao, representing 51% of its enlarged registered capital, at a consideration of RMB15,000,000 pursuant to the terms and conditions of the Investment Agreement
“Board”	the board of Directors
“Business Day(s)”	any day(s) except any Saturday, Sunday or statutory holidays in the PRC
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

“Company”	Modern Media Holdings Limited 現代傳播控股有限公司, a company incorporated under the laws of the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 72)
“Completion”	the Completion of the Acquisition pursuant to the terms and conditions of the Investment Agreement
“Conditions Precedent”	the conditions precedent to be fulfilled for the Completion pursuant to the Investment Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) which is/are not connected person(s) (as defined in the Listing Rules) of the Company
“Investment Agreement”	the investment agreement dated 8 April 2019 entered into between the Subscriber, Shanghai Shangzhao and the Shanghai Shangzhao Existing Shareholders concerning the Subscription
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Shangzhao”	上海尚照電子商務有限公司(Shanghai Shangzhao Co., Ltd.*), a limited company incorporated in the PRC

“Shanghai Shangzhao Existing Shareholders”	the existing shareholders of Shanghai Shangzhao as at the date of this Announcement
“Shanghai Shangzhao Founding Shareholders”	the founding shareholders of Shanghai Shangzhao
“Shanghai Shangzhao Group”	Shanghai Shangzhao and its subsidiary, Shanghai Zhongshe
“Shanghai Zhongshe”	上海眾社文化發展有限公司(Shanghai Zhongshe Cultural Development Co., Ltd.*), a limited company incorporated in the PRC. As at the date of this Announcement/At or before the Completion, Shanghai Zhongshe was wholly owned by/will become wholly owned by Shanghai Shangzhao.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	上海美咖文化傳播有限公司(Shanghai Meika Cultural Development Co., Ltd.*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“%”	per cent.

By the order of the Board
Modern Media Holdings Limited
Shao Zhong
Chairman

Hong Kong, 8 April 2019

As at the date of this announcement, the Board comprises the following members: (a) as executive directors, Mr. SHAO Zhong, Mr. MOK Chun Ho, Neil, Ms. YANG Ying, Mr. LI Jian and Mr. DEROCHE Alain; (b) as independent non-executive directors, Mr. JIANG Nanchun, Mr. WANG Shi and Mr. AU-YEUNG Kwong Wah and Dr. GAO Hao.

* *The English transliteration of the Chinese names in this announcement, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.*