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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)

SUPPLEMENTAL ANNOUNCEMENT

DISCLOSABLE TRANSACTION:

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

Reference is made to the announcement (“**Announcement**”) of the Company dated 8 April 2019 in relation to the acquisition of 51% interest in 上海尚照電子商務有限公司 (Shanghai Shangzhao Co., Ltd.*) (“**Shanghai Shangzhao**”) by way of subscription. Unless the context otherwise states, capitalised terms used in this announcement have the same meanings as those defined in the Announcement.

The Company would like to supplement additional information in relation to the entering into of the Investment Agreement and transactions contemplated therein.

THE INVESTMENT AGREEMENT

On 8 April 2019, the Investment Agreement was entered into among the Subscriber, Shanghai Shangzhao and all eight of the Shanghai Shangzhao Existing Shareholders (Shanghai Shangzhao had a total of eight shareholders, i.e. the eight Shanghai Shangzhao Existing Shareholders, and four of them are Shanghai Shangzhao Founding Shareholders). Amongst the eight Shanghai Shangzhao Existing Shareholders, six of them are individuals, and two of them are limited partnerships established in the PRC. Both limited partnerships are engaged in investment holding only.

Save as disclosed in the Announcement, the Group is under no obligation to provide further capital injection under the Investment Agreement.

The Acquisition

As disclosed in the Announcement, 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. It is expected that such consideration will be applied towards:

- (1) the general operations of the four existing galleries cum retail stops/flagship store, the website and the online store of Shanghai Shangzhao and Shanghai Zhongshe;
- (2) financing the implementation of the following business plans of Shanghai Shangzhao and Shanghai Zhongshe, representing further cooperation with the Group, in 2019:
 - (a) expanding the existing gallery cum retail store in Beijing;
 - (b) further expansion of the flagship store in Shanghai;
 - (c) setting up a pop-up store in Guangzhou;
 - (d) organising market events for the promotion of Brownie.

The consideration of the Acquisition

As disclosed in the Announcement, the consideration of the Acquisition in the sum of RMB15,000,000 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. Details of the factors taken into account for determining the consideration of the Acquisition are as follows:

- (1) the financial conditions (in particular, the revenue trend) of Shanghai Shangzhao and Shanghai Zhongshe:
 - (a) the aggregate revenue ("**Aggregate Revenue**") of Shanghai Shangzhao and Shanghai Zhongshe for the two years ended 31 December 2017 and 2018 was approximately RMB2.1 million and RMB4.3 million, respectively, representing a significant increase by approximately 104%;
 - (b) during the year ended 31 December 2017, Shanghai Shangzhao and Shanghai Zhongshe opened one gallery cum retail store and one flagship store (each of them containing a café) in Shanghai in March and September 2017, respectively, which contributed substantially to the Aggregate Revenue for the two years ended 31 December 2017 and 2018; in the December 2018 and January 2019, Shanghai Shangzhao and Shanghai Zhongshe further opened a gallery cum retail store in each of Beijing and Shenzhen respectively;

- (c) the reasons for the net loss of Shanghai Shangzhao and the thin net profit of Shanghai Zhongshe for the year ended 31 December 2018 was due to (i) the photography gallery market in the PRC is still developing and consumers are still adjusting to the change; (ii) the lack of effective marketing and promotional activities on the part of Shanghai Shangzhao and Shanghai Zhongshe; and (iii) with only one gallery cum retail store and one flagship store in the PRC for most of 2018, it would be difficult to obtain the benefit from economies of scale;
- (2) the prospects of Shanghai Shangzhao and Shanghai Zhongshe:
- (a) apart from the abovementioned galleries cum retail stores and flagship store, Shanghai Shangzhao and Shanghai Zhongshe have also been operating an online store for sales of photography artworks;
 - (b) the Group will, upon completion of the Acquisition, be able to control four existing galleries cum retail stores/flagship store and an online store which have been already in operation at the date of the Investment Agreement or earlier. In addition, all such galleries cum retail stores/flagship stores are located at popular commercial districts in Tier-1 cities (i.e. Shanghai, Beijing and Shenzhen) in the PRC. The Acquisition readily allows the Group to tap into an existing business with established goodwill and clientele, hence materializing the business potential in the photography gallery and retail industry and e-commerce industry in the PRC;
 - (c) it is the Group's estimate that if the Group sets up by itself a new photography gallery cum retail store (including café) of similar size and at similar location, the capital outlay for four galleries cum retail stores and basic operating costs of the galleries cum retail stores and an office in Shanghai for the initial 24 months would likely exceed RMB15 million. Further, establishing a new business carries certain difficulties and uncertainties, such as difficulty in recruiting experienced staff, spending of additional time and resources to train less experienced staff, to establish business procedures and to build up its own brand names and clientele; and uncertainty in revenue (which uncertainty arises from choice of locations and customer preferences);
- (3) the Acquisition is effected by way of subscription, i.e. injection of capital into the registered capital of Shanghai Shangzhao (instead of purchase of equity interest from its existing shareholders), which shall enable the Shanghai Shangzhao Group to utilise such funds to implement its business plans as set out in paragraph (2) under the paragraph headed "The Acquisition" above; and
- (4) Upon the completion of the Acquisition, the Group will have a majority stake in Shanghai Shangzhao (51% of its registered capital).

Conditions Precedent

Regarding the Conditions Precedent set out under the section headed “The Investment Agreement – Conditions Precedent” of the Announcement, under the Investment Agreement, the Subscriber is entitled to waive such Conditions Precedent in favour of Shanghai Shangzhao and/or the Shanghai Shangzhao Founding Shareholders. The Company, as the ultimate holding company of the Subscriber, shall consider whether it is in the interest of the Company and its shareholders taken as a whole, before directing the Subscriber to exercise the right to waiver or to decline the exercise of such right.

Share Incentive plan

Regarding the share incentive plan which shall be further agreed among the Subscriber and the Shanghai Shangzhao Founding Shareholders, further announcement(s) in such connection will be made by the Company as and when appropriate in compliance with the Listing Rules.

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

Hong Kong, 18 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.*