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## **Pegasus Entertainment Holdings Limited**

**天馬娛樂控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8039)**

**(1) POSSIBLE MAJOR TRANSACTION  
ACQUISITION OF 40% EQUITY INTEREST IN THE TARGET  
AND  
POSSIBLE ACQUISITION OF ADDITIONAL EQUITY INTEREST IN THE  
TARGET THROUGH EXERCISE OF THE CALL OPTION  
AND  
(2) POSSIBLE CONTINUING CONNECTED TRANSACTIONS**

**Financial adviser to the Company**



**KINGSTON CORPORATE FINANCE LTD.**

### **ACQUISITION AGREEMENT**

The Board is pleased to announce that on 13 August 2013, after trading hours, the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing 40% of the entire issued share capital of the Target Company, free from all encumbrances, and together with all rights and benefits attaching thereto at a consideration of HK\$60,000,000.

In addition, pursuant to the Acquisition Agreement, the Vendor has granted to the Purchaser the Call Option which entitles the Purchaser to acquire from the Vendor the Call Option Shares during the Call Option Period, in a single exercise, free from all encumbrances, and together with all rights and benefits attaching thereto.

### **IMPLICATION UNDER THE GEM LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition Agreement (including the Acquisition and Further Acquisition) exceed 25% but are less than 100%, the Acquisition and the Further Acquisition constitute a major transaction for the Company and is subject to reporting, announcement and shareholders' approval at general meeting requirements under Chapter 19 of the GEM Listing Rules.

As no Shareholder has a material interest in the transactions contemplated under the Acquisition Agreement, none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition Agreement and the transactions contemplated thereunder (including both the Acquisition and the Further Acquisition). Pursuant to Rule 19.44 of the GEM Listing Rules, Honour Grace Limited, the controlling Shareholder which is beneficially interested in 300,000,000 Shares, representing approximately 63.83% of the issued share capital of the Company as at the date of this announcement, has given its written approval for the Acquisition Agreement (including both the Acquisition and the Further Acquisition).

The Circular containing, among other things, (i) the letter from the Board containing details on the Acquisition Agreement and the transactions contemplated thereunder; (ii) financial information of the Target Group; and (iii) pro forma financial information on the Group upon completion of Further Acquisition (assuming the Call Option is exercised to the extent that the Purchaser will hold the entire issued share capital of the Target Company) will be dispatched to the Shareholders on or before 30 September 2013 since additional time is required for the preparation of relevant financial information.

### **POSSIBLE CONTINUING CONNECTED TRANSACTIONS**

In the event that the Purchaser exercises the Call Option to acquire the Call Option Shares, the Target Company will become an indirect subsidiary of the Company. Accordingly, the Vendor and its Associates and/or any related parties to the Target Group may become a connected person of the Company upon completion of the Further Acquisition. As a result, the ongoing arrangement(s) between such parties and the Target Group prior to the Further Acquisition will become a continuing connected transaction of the Company under the GEM Listing Rules. Details of the relevant arrangement(s) will be disclosed in the Circular.

## **THE ACQUISITION AGREEMENT**

Major terms of the Acquisition Agreement are set out below.

Date: 13 August 2013

Parties: (1) the Purchaser, a wholly-owned subsidiary of the Company; and  
(2) the Vendor.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties.

### **Assets to be acquired**

#### ***Acquisition***

Pursuant to the Acquisition Agreement, the Purchaser (a wholly-owned subsidiary of the Company) has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing the 40% of the entire issued share capital of the Target Company.

## ***Further Acquisition***

In addition, pursuant to the Acquisition Agreement, the Vendor has granted to the Purchaser the Call Option which entitles the Purchaser to acquire from the Vendor the Call Option Shares during the Call Option Period, in a single exercise, free from all encumbrances, and together with all rights and benefits attaching thereto. Details of the Call Option are set out in the section headed “Call Option” below.

## **Consideration**

The consideration payable by the Purchaser to the Vendor for the Sale Shares is HK\$60,000,000 and shall be settled by the Purchaser in cash in the following manner:

- (a) a refundable deposit of HK\$24,000,000 shall be paid by the Purchaser to the Vendor at the date of signing of the Acquisition Agreement; and
- (b) the balance of HK\$36,000,000 shall be paid by the Purchaser to the Vendor upon Completion.

The refundable deposit of HK\$24,000,000 will be fully returned to the Purchaser without any interest within two Business Day after the Long Stop Date in the event the conditions precedent of the Acquisition Agreement cannot be met or has not been waived on or before the Long Stop Date.

The Consideration is determined after arm’s length negotiations between the Purchaser and the Vendor with reference to various factors, including but not limited to, (i) the historical financial performance of the Target Group; (ii) the growth potential and prospect of the Target Group; (iii) the anticipated synergy to be created for the Group’s existing business after Completion; (iv) the amount of the Guaranteed Net Profits undertaken by the Vendor; and (v) the relevant price-to-earnings ratio of companies and historical transaction on company engaged in similar businesses of the Target Group.

As informed by the Vendor, the Guaranteed Net Profits are determined by the Vendor after having taken into account, among others, the historical business performance of the Target Group and the potential new revenue streams to the Target Group arising from the expected business opportunities in utilising the assets of the Target Group, including but not limited to its comic library, through new distribution platforms.

## **Call Option**

Pursuant to the Acquisition Agreement, the Vendor has granted to the Purchaser the Call Option which entitles the Purchaser to acquire from the Vendor the Call Option Shares during the Call Option Period, in a single exercise, free from all encumbrances, and together with all rights and benefits attaching thereto. In consideration of the grant of the Call Option, the Purchaser has paid to the Vendor, upon signing of the Acquisition Agreement, HK\$1.00.

The consideration of the Call Option Shares shall be calculated based on the valuation (the “**Valuation**”) of the business of the Target Group to be conducted by an international reputed valuer acceptable to the Purchaser in its absolute discretion in accordance with the formula below:

Consideration of Call Option Shares =  $\frac{\text{Additional percentage of the entire issued share capital of the Target Company to be acquired under the Call Option}}{\text{Valuation}}$

In the event that (i) the Valuation falls below HK\$90,000,000, the consideration of the Call Option Shares shall be calculated as if the Valuation is HK\$90,000,000; or (ii) the Valuation exceeds HK\$180,000,000, the consideration of the Call Option Shares shall be calculated as if the Valuation is HK\$180,000,000.

The Call Option can be exercised by the Purchaser at any time during the Call Option Period. The Call Option will expire automatically if it is not exercised during the Call Option Period.

The consideration of the Call Option Shares payable by the Purchaser to the Vendor shall be settled in cash or such other payment method to be agreed between the Purchaser and the Vendor at the completion of the sale and purchase of the Call Option Shares. At the completion of the sale and purchase of the Call Option Shares, the Company will appoint directors to, and/or director(s) nominated by the Vendor will resign from, the board of directors of each member of the Target Group such that the Company will obtain the control of the board of directors of each member of the Target Group.

### **Profit guarantee**

The Vendor guarantees to the Purchaser that the Guarantee Net Profits shall not be less than HK\$15,000,000.

In the event that the Guaranteed Net Profits are less than HK\$15,000,000, the Vendor shall pay to the Purchaser a sum equivalent to the shortfall by cashier order within five Business Days (which shall not be later than 5 September 2014) after the date of delivery date of the Special Audited Accounts. For the avoidance of doubt, in the event that the Special Audited Accounts indicate that the Target Group has incurred a net loss during the Guaranteed Period, the total amount payable by the Vendor to the Purchaser shall be HK\$15,000,000.

The Vendor shall provide the Special Audited Accounts to the Purchaser within two calendar months from the end of the Guaranteed Period and procure the Special Audited Accounts shall not be qualified in any respects.

### **First right of refusal to use intellectual property rights**

Subject to Completion, the Vendor irrevocably grants to the Group the first right of refusal to use the intellectual property rights of the Target Group (including but not limited to the Target Group's comic stories and comic characters) for the business of the Group, namely, the production and distribution of films.

### **Conditions precedent**

Completion shall be conditional upon satisfaction or waiver as applicable of each of the following conditions precedent:

- (a) the Purchaser and its advisers having completed and satisfied in their absolute discretion with the results of the due diligence review;

- (b) the Purchaser and its advisers having received and satisfied in their absolute discretion (in substance and form) a legal opinion issued by a firm of lawyers qualified to practise in the BVI covering matters of the laws of the BVI as the Purchaser may consider appropriate to the transactions contemplated by the Acquisition Agreement;
- (c) the Purchaser and its advisers having received and satisfied in their absolute discretion (in substance and form) a legal opinion issued by a firm of lawyers qualified to practise in the PRC covering matters of the PRC laws as the Purchaser may consider appropriate or relevant to the transactions contemplated by the Acquisition Agreement;
- (d) the Purchaser and its advisers having received and satisfied in their absolute discretion (in substance and form) a legal opinion issued by a firm of lawyers qualified to practise in Samoa covering matters of Samoa laws as the Purchaser may consider appropriate or relevant to the transactions contemplated by the Acquisition Agreement;
- (e) the Purchaser and its advisers having received and satisfied in their absolute discretion (in substance and form) a legal opinion issued by a firm of lawyers qualified to practise in Hong Kong covering matters of Hong Kong laws as the Purchaser may consider appropriate or relevant to the transactions contemplated by the Acquisition Agreement;
- (f) all approvals, consents, authorisations and licences (so far as are necessary) in relation to the transactions contemplated under the Acquisition Agreement having been obtained from the relevant governmental authorities;
- (g) the Purchaser being satisfied in its absolute discretion, from the date of the Acquisition Agreement and at any time before Completion, that the warranties set out in the Acquisition Agreement remain true and accurate in all material respects, not misleading or in breach in any material respect and that no events have suggested that there were any breach in any material respect of any warranties or other provisions of the Acquisition Agreement by the Vendor; and
- (h) the Purchaser being satisfied in its absolute discretion, from the date of the Acquisition Agreement to Completion, there has not been any material adverse change on the financial position, business or operations in respect of any member of the Group.

The Purchaser may at its absolute discretion at any time waive in writing any of the conditions precedent (to the extent it is capable of waiving) and such waiver may be made subject to such terms and conditions as are determined by the Purchaser. If all the conditions precedent have not been satisfied or waived by 5:00 p.m. on the Long Stop Date, the Acquisition Agreement will lapse and have no further effect and the parties will be released from all obligations under it.

## **COMPLETION**

Completion shall take place on the fifth Business Day after the date of the fulfillment or waiver of all the conditions precedent required to be fulfilled before Completion or such later date as the Purchaser and the Vendor may agree in writing.

Upon Completion, the Target Company will become a 40%-owned associate company of the Company. In the event that the Purchaser exercises the Call Option to further acquire the Call Option Shares additional 20% or more of the entire issued share capital of the Target Company, the Target Company will become an indirect subsidiary of the Company.

## INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in the BVI with limited liability and the Target Group is principally engaged in comic publication and owns the intellectual property rights of a database of comic stories and comic heroes that are suitable for reproduction as movies, television shows, as well as for the development into the online games and mobile games.

Based on the information provided by the Vendor, set out below is a summary of certain financial information of the Target Group for the two financial periods ended 31 December 2011 and 2012:

	<b>For the year ended 31 December 2012 <i>HK\$000</i> (<i>audited</i>)</b>	<b>For the period from 1 April 2011 to 31 December 2011 <i>HK\$000</i> (<i>audited</i>)</b>
Turnover	49,022	41,312
Net profit (before taxation and extraordinary items)	3,186	6,611
Net profit (after taxation but before extraordinary items)	3,062	6,465

The unaudited total assets value and net asset value of the Target Group as at 31 May 2013 were approximately HK\$51,915,000 and HK\$37,535,000 respectively. As at 31 July 2013, the shareholders' loan due from the Target Group to the Vendor and/or its associates was approximately HK\$400,000.

## REASON FOR THE ACQUISITION

The Group is principally engaged in film production, distribution and licensing of film rights.

While continuing its engagement in the existing principal businesses, the Group has been actively seeking opportunities to diversify the existing business with a new line of business with significant growth potential and to diversify the Group's revenue stream in order to enhance the value of the Shares. The Directors consider the Acquisition will not only serve the purposes above in diversifying the Group's business, but also brings further business opportunity to the Group as it will be entitled to a first right of refusal to use the intellectual property rights of the Target Group (including but not limited to the Target Group's comic stories and comic characters) that the Directors believe are suitable for reproduction as films. In addition, the Call Option will provide the Company an opportunity to increase its interests in the investment when and if the Board considers appropriate.

The Directors consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **IMPLICATIONS UNDER THE GEM LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition Agreement (including the Acquisition and Further Acquisition) exceed 25% but are less than 100%, the Acquisition and the Further Acquisition constitute a major transaction for the Company and is subject to reporting, announcement and shareholders' approval at general meeting requirements under Chapter 19 of the GEM Listing Rules.

Pursuant to Rule 19.44 of the GEM Listing Rules, written shareholders' approval may be accepted in lieu of holding a general meeting of the Company to approve Acquisition Agreement and the transactions contemplated thereunder if:

- (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition Agreement and the transactions contemplated thereunder; and
- (b) the written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued shares of the Company giving right to attend and vote at a general meeting to approve the Acquisition Agreement and the transactions contemplated thereunder.

As no Shareholder has a material interest in the transactions contemplated under the Acquisition Agreement, none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition Agreement and the transactions contemplated thereunder (including both the Acquisition and the Further Acquisition). Pursuant to Rule 19.44 of the GEM Listing Rules, Honour Grace Limited, the controlling Shareholder which is beneficially interested in 300,000,000 Shares, representing approximately 63.83% of the issued share capital of the Company as at the date of this announcement, has given its written approval for the Acquisition Agreement (including both the Acquisition and the Further Acquisition).

The Circular containing, among other things, (i) the letter from the Board containing details on the Acquisition Agreement and the transactions contemplated thereunder; (ii) financial information of the Target Group; and (iii) pro forma financial information on the Group upon completion of Further Acquisition (assuming the Call Option is exercised to the extent that the Purchaser will hold the entire issued share capital of the Target Company) will be dispatched to the Shareholders on or before 30 September 2013 since additional time is required for the preparation of relevant financial information.

## **POSSIBLE CONTINUING CONNECTED TRANSACTIONS**

In accordance with Rule 20.41 of the GEM Listing Rules, where a listed issuer has entered into an agreement involving continuing transactions and such transactions subsequently become continuing connected transactions for whatever reason, the listed issuer must, immediately upon it becoming aware of this fact, comply with all applicable reporting, annual review and disclosure requirements of the GEM Listing Rules in respect of all such continuing connected transactions.

In the event that the Purchaser exercises the Call Option to acquire the Call Option Shares, the Target Company will become an indirect subsidiary of the Company. Accordingly, the Vendor and its Associates and/or any related parties to the Target Group may become a connected person of the Company upon completion of the Further Acquisition. As a result, the ongoing arrangement(s) between such parties and the Target Group prior to the Further Acquisition will become a continuing connected transaction of the Company under the GEM Listing Rules as aforesaid. Details of the relevant arrangement(s) will be disclosed in the Circular.

Subsequent to the Further Acquisition, the Company will comply with all applicable reporting, annual review and disclosure requirements of Chapter 20 of the GEM Listing Rules immediately upon it becoming aware of any continuing connected transaction and, if applicable, independent shareholders' approval requirements of the GEM Listing Rules upon any variation or renewal of the relevant agreements.

**It should be noted that the Acquisition is subject to a number of conditions, which may or may not be fulfilled. Shareholders and potential investors should therefore exercise caution when dealing in the Shares.**

## **TERMS AND DEFINITIONS**

“Acquisition”	the acquisition of the Sale Shares by the Purchaser
“Acquisition Agreement”	a conditional sale and purchase agreement dated 13 August 2013 entered into between the Purchaser and the Vendor in relation to the Acquisition and the Further Acquisition
“Associate”	has the meaning described thereto in the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks are open for business in Hong Kong
“BVI”	British Virgin Islands
“Call Option”	the share option granted by the Vendor to the Purchaser under the Acquisition Agreement entitling the Purchaser to acquire from the Vendor additional 20% or more of the entire issued share capital of the Target Company free from all encumbrances, and together with all rights and benefits attaching thereto
“Call Option Shares”	such number of Shares representing 20% or more of the entire issued share capital of the Target Company to be acquired by the Purchaser upon exercise of the Call Option granted by the Vendor to the Purchaser under the Acquisition Agreement



“Call Option Period”	the period commencing on the date of completion of the Acquisition Agreement and ending on the first anniversary of the date of completion of the Acquisition Agreement during which the Purchaser may exercise the Call Option granted by the Vendor to it pursuant to the Acquisition Agreement
“Circular”	the circular to be issued by the Company in accordance with the GEM Listing Rules in respect of the Acquisition Agreement and the transactions contemplated thereunder
“Company”	Pegasus Entertainment Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the GEM
“Completion”	completion of the sale and purchase of the Sale Shares pursuant to the Acquisition Agreement
“connected person”	has the meaning described thereto in the GEM Listing Rules
“Consideration”	the total consideration in the sum of HK\$60,000,000 payable by the Purchaser to the Vendor for the Acquisition
“Director(s)”	director(s) of the board of the Company
“Further Acquisition”	the acquisition of the Call Option Shares by the Purchaser upon the exercise of the Call Option granted by the Vendor to the Purchaser
“Group”	the Company and its subsidiaries
“Guaranteed Net Profits”	the audited net profits of the Target Group after tax and any minority interests but excluding any non-recurring or extraordinary or exceptional items for the twelve-month period from 1 July 2013 and 30 June 2014 (both dates inclusive) as calculated in accordance with the Hong Kong Financial Reporting Standards and with accounting principles, practices, policies and requirements consistent with those adopted by the Target Group in preparation of its audited financial statements for the year ended 31 December 2012
“Guaranteed Period”	the twelve-month period from 1 July 2013 to 30 June 2014 (both dates inclusive)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM

“Hong Kong”	Hong Kong Special Administrative Region of PRC
“Independence Third Party(ies)”	third party(ies) independent of the Company and its connected person (as defined in the GEM Listing Rules)
“Long Stop Date”	30 September 2013 or such later date to be agreed between the Purchaser and the Vendor in writing
“PRC”	the People’s Republic of China
“Purchaser”	Green Riches Holdings Limited, a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of the Company
“Sale Share(s)”	40% of the entire issued share capital of the Target Company that the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell according to the Acquisition Agreement
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Special Audited Accounts”	the audited consolidated balance sheet of the Target Group made up as at 30 June 2014 and the audited consolidated profit and loss accounts of the Target Group for a twelve-month period ending on 30 June 2014 to be prepared under the Hong Kong Financial Reporting Standards, and all notes, reports, statements and other documents annexed to those accounts in accordance with any legal requirement, which will be provided by the accountancy firm acceptable to the Purchaser
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Jade Dynasty Holdings Limited, a company incorporated in the BVI with limited liability whose principal business is investment holding
“Target Group”	Target Company and its subsidiaries
“Vendor”	Jade Sparkle Holdings Limited, a company incorporated in the BVI with limited liability whose principal business is investment holding

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By order of the Board  
**Pegasus Entertainment Holdings Limited**  
**Wong Pak Ming**  
Chairman

Hong Kong, 13 August 2013

*As at the date of this announcement, the executive Directors are Mr. Wong Pak Ming, Ms. Wong Yee Kwan Alvina and Mr. Wong Chi Woon Edmond and the independent non-executive Directors are Mr. Lam Kam Tong, Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (a) the information contained in this announcement is accurate and complete in all material respects and not misleading; (b) there are no other matters the omission of which would make any statement in this announcement misleading; and (c) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least seven days from the date of its posting and on the Company’s website ([www.pegasusmovie.com](http://www.pegasusmovie.com)).*