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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)**

### **UPDATE ON THE POSSIBLE MAJOR TRANSACTION AND DISCLOSEABLE TRANSACTION**

**Financial adviser to the Company**



**KINGSTON CORPORATE FINANCE LTD.**

#### **DISCLOSEABLE TRANSACTION**

##### **Background**

On 15 November 2013, after trading hours, the Purchaser and the Vendor entered into the Amended and Restated Agreement pursuant to which the Purchaser and the Vendor agreed to revise certain terms of the Acquisition Agreement after arms' length negotiations as detailed herein.

Taking into account of the changes, the transactions contemplated under the Amended and Restated Agreement will be re-classified from a major transaction as stated in the Company's announcements dated 13 August 2013 and 27 September 2013 respectively to a discloseable transaction for the Company under the GEM Listing Rules and are therefore subject to the reporting and announcement requirements, but not the shareholders' approval requirement under the GEM Listing Rules.

##### **Major amendments**

The major amendments to the Acquisition Agreement are as follow:

- (a) the total consideration payable by the Purchaser to the Vendor for the Sale Shares is reduced from HK\$60,000,000 to HK\$54,000,000;
- (b) the Call Option granted has been cancelled; and

(c) the First Right of Refusal has been granted by the Vendor to the Purchaser.

Save for the above, all terms and conditions of the Acquisition Agreement remain in full force and effect.

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

As the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Amended and Restated Agreement calculated under the GEM Listing Rules exceed 5% but are less than 25%, the Amended and Restated Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under the GEM Listing Rules and is therefore subject to the reporting and announcement requirements, but not the shareholders' approval requirement under the GEM Listing Rules.

The exercise of the First Right of Refusal may constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcements will be made by the Company upon the exercise of the First Right of Refusal and as and when appropriate in compliance with the GEM Listing Rules.

Reference is made to the announcements of the Company dated 13 August 2013 and 27 September 2013 respectively in respect of, among others, a possible major acquisition and possible continuing connected transactions.

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## **AMENDED AND RESTATED AGREEMENT**

Set out below are the major terms and conditions of the Amended and Restated Agreement.

Date: 15 November 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**

Pursuant to the Amended and Restated 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.

## **Consideration**

The consideration payable by the Purchaser to the Vendor for the Sale Shares is HK\$54,000,000 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;
- (b) a further refundable deposit of HK\$6,000,000 shall be paid by the Purchaser to the Vendor on or before 30 September 2013; and
- (c) the balance of HK\$24,000,000 shall be paid by the Purchaser to the Vendor upon Completion.

The refundable deposit of an aggregate sum of HK\$30,000,000 was paid in accordance to the terms of the Amended and Restated Agreement. The refundable deposit will be fully returned to the Purchaser without any interest within two Business Days after the Long Stop Date in the event the conditions precedent of the Amended and Restated Agreement cannot be met or has not been waived on or before the Long Stop Date.

As previously disclosed in the Company's announcement dated 13 August 2013, the original consideration of HK\$60,000,000 under the Acquisition Agreement was 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. The Revised Consideration was determined after arm's length negotiations between the Purchaser and the Vendor with reference to the above factors and taking into account the cancellation of the Call Option.

### **Profit guarantee**

The Vendor guarantees to the Purchaser that the Guaranteed 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 40% of 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\$6,000,000 (*clarification: it was mistakenly stated in the Company's announcement dated 13 August 2013 that the total amount payable by the Vendor to the Purchaser in such event 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.

As informed by the Vendor, the Guaranteed Net Profits were 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.

## **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.

## **First right of refusal in acquiring additional 20% of the entire issued share capital of the Target Company**

The Vendor irrevocably grants a first right of refusal in respect of 20% of the entire issue share capital of the Target Company under the Amended and Restated Agreement. The Purchaser is entitled to exercise the First Right of Refusal during the period (the "**Exercise Period**") commencing from the date of Completion and ending on (a) the date falling on the second anniversary of the date of Completion, (b) the date on which the Purchaser accepts the offer by the Vendor and exercises its First Right of Refusal, (c) the date on which the Purchaser informs the Vendor in writing that it waives the First Right of Refusal, and (d) in the event the Purchaser does not accept the offer by the Vendor, the date on which the transfer of the shares of the Target Company by the Vendor to the third party on terms (including the offer price) which are no more advantageous than those offered to the Purchaser is completed pursuant to provisions of the Amended and Restated Agreement, whichever is the earliest. The Vendor has agreed that before agreeing to dispose of any of its shares (or interests in shares) in the Company (which shall represent 20% of the entire issued share capital of the Company from time to time) during the Exercise Period, the Vendor will make a written offer to the Purchaser to transfer, as legal and beneficial owner, those shares of the Company to the Purchaser, specifying details of any material terms of the offer including the desired offer price per share.

## **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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Agreement;
- (f) all approvals, consents, authorisations and licences (so far as are necessary) in relation to the transactions contemplated under the Amended and Restated Agreement having been obtained from the relevant governmental authorities;
- (g) the Purchaser being satisfied in its absolute discretion, from the date of the Amended and Restated Agreement and at any time before Completion, that the warranties set out in the Amended and Restated 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 Amended and Restated Agreement by the Vendor; and
- (h) the Purchaser being satisfied in its absolute discretion, from the date of the Amended and Restated 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 Amended and Restated 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.

## **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 HK\$'000 (audited)</b>	<b>For the period from 1 April 2011 to 31 December 2011 HK\$'000 (audited)</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 First Right of Refusal will provide the Company an opportunity to increase its interests in the investment.

The Directors, having considered that (i) the Revised Consideration represents a 10% discount to the original consideration under the Acquisition Agreement for the Sale Shares, which is more favourable to the Company; and (ii) the First Right of Refusal still provides a chance to the Company to become the majority shareholder of the Target Company, are of the view that the terms of the Amended and Restated 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 the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Amended and Restated Agreement calculated under the GEM Listing Rules exceed 5% but are less than 25%, the Amended and Restated Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under the GEM Listing Rules and is therefore subject to the reporting and announcement requirements, but not the shareholders' approval requirement under the GEM Listing Rules.

The exercise of the First Right of Refusal may constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcements will be made by the Company upon the exercise of the First Right of Refusal and as and when appropriate in compliance with the GEM Listing Rules.

**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 pursuant to the Acquisition Agreement
“Acquisition Agreement”	a conditional share purchase agreement dated 13 August 2013 entered into between the Purchaser and the Vendor in relation to the Acquisition and the Further Acquisition (as supplemented by the Supplemental Agreement)
“Amended and Restated Agreement”	an amended and restated share purchase agreement to the Acquisition Agreement dated 15 November 2013 entered into between the Purchaser and the Vendor in relation to the 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
“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
“Director(s)”	director(s) of the board of the Company
“First Right of Refusal”	a first right of refusal in respect of 20% of the entire issued share capital of the Target Company granted by the Vendor to the Purchaser under the Amended and Restated Agreement
“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 contemplated under the Acquisition Agreement
“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 November 2013 or such later date to be agreed between the Purchaser and the Vendor in writing
“PRC”	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
“Revised Consideration”	the total consideration in the sum of HK\$54,000,000 payable by the Purchaser to the Vendor under the Amended and Restated Agreement
“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
“Supplemental Agreement”	a supplemental agreement dated 27 September 2013 entered into between the Purchaser and the Vendor in relation to the Acquisition Agreement
“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, 15 November 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)).*