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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)

MAJOR TRANSACTION IN RELATION TO A LEASE AGREEMENT

LEASE AGREEMENT AND GUARANTEE

The Board wishes to announce that on 27 December 2013 (after trading hours):

- (a) the Tenant (an indirect wholly-owned subsidiary of the Company) as tenant and the Landlord as landlord entered into the Lease Agreement, pursuant to which the Landlord has agreed to let and the Tenant has agreed to rent and take the Leased Premises together with the use in common with the Landlord and other tenants certain area of Langham Place for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024; and
- (b) the Company as guarantor executed the Guarantee and Indemnity in favour of the Landlord to guarantee the due, full, punctual and complete performance and observance by the Tenant of all its obligations, undertakings and covenants under the Lease Agreement.

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 annual rent and charges payable by the Tenant under the Lease Agreement exceed 25% but less than 100%, the Lease Agreement constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under the GEM Listing Rules.

As no Shareholder has a material interest in the transactions contemplated under the Lease 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 Lease Agreement and the transactions contemplated thereunder. 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 62.5% of the issued share capital of the Company as at the date of this announcement, has given its written approval for the Lease Agreement and the transactions contemplated thereunder.

A circular containing, among other things, a letter from the Board providing details on the Lease Agreement and the transactions contemplated thereunder will be despatched to the Shareholders on or before 17 January 2014 in compliance with the GEM Listing Rules.

Reference is made to the Company's announcement dated 4 November 2013 in relation to the Offer to Lease received by the Company and the Tenant from the Landlord confirming the lease arrangement in relation to the Leased Premises situated at Langham Place, Argyle Street, Kowloon, Hong Kong.

The Board wishes to announce that on 27 December 2013 (after trading hours), the Group entered into the following agreements which have incorporated the details of the Leased Premises, term, rent and other charges contained in the Offer to Lease and the standard terms in respect of the lease arrangement:

- (a) *Lease Agreement* – the Tenant (an indirect wholly-owned subsidiary of the Company) as tenant and the Landlord as landlord entered into the Lease Agreement, pursuant to which the Landlord has agreed to let and the Tenant has agreed to rent and take the Leased Premises together with the use in common with the Landlord and other tenants certain area of Langham Place for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024; and
- (b) *Guarantee and Indemnity* – the Company as guarantor executed the Guarantee and Indemnity in favour of the Landlord to guarantee the due, full, punctual and complete performance and observance by the Tenant of all its obligations, undertakings and covenants under the Lease Agreement.

LEASE AGREEMENT

Set out below are the major terms of the Lease Agreement:

- Date:** 27 December 2013
- Parties involved:**
1. The Landlord, as landlord.
 2. The Tenant, as tenant.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Landlord and their respective ultimate shareholders are third parties independent of the Company and its connected persons (as defined under the GEM Listing Rules).

Leased Premises

The Leased Premises is situated on Levels 1, 8, 9 and 10 of Langham Place, 8 Argyle Street, Kowloon, Hong Kong.

Term of lease

The lease of the Leased Premises is for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024.

Rent and other charges

The Tenant shall pay rent and other charges to the Landlord every calendar month. The rent of the Leased Premises comprises the base rent and turnover rent on the cinemas and related operations carried at the Leased Premises.

Base rent

The Tenant shall pay the base rent every calendar month in advance on the first day of each and every calendar month according to the payment schedule set out in the Lease Agreement with the first payment being paid upon the execution of the Lease Agreement.

Turnover rent

In each calendar month the Tenant shall pay the turnover rent which shall be the sum of the following:

- (1) an amount (if any) equivalent to the Box Office Takings for the relevant month multiplied by a prescribed percentage and the Merchandize Takings for the relevant month multiplied by a prescribed percentage minus the base rent for the relevant month;
- (2) an amount equivalent to the Concession Takings for the relevant month multiplied by a prescribed percentage; and
- (3) an amount equivalent to the Screen Advertising Takings for the relevant month multiplied by a prescribed percentage.

The turnover rent in respect of any calendar month shall be paid in arrears by the Tenant for the month in question on or before the 15th day of the immediately following calendar month. The Lease Agreement has also provided for an adjustment mechanism for the turnover rent paid by the Tenant to the Landlord based on the actual audited amount of Box Office Takings, Merchandize Takings, Concession Takings and Screen Advertising Takings.

Other charges

Apart from the rent, the Tenant shall also pay the management charges and promotional levy per calendar month in advance on the first day of each and every calendar month and the government rates.

The rent and other charges were determined between the Landlord and the Tenant after arm's length negotiations, taking into account (a) the location of the Leased Premises, (b) the average rent offered by the Landlord to other tenants of Langham Place; and (c) the box office receipts generated by the existing operation. The Board considers that the rent and other charges are fair and reasonable.

Rent-free period

The Tenant shall be entitled to a rent-free period relating to the base rent of the Box Office Takings and Merchandize Takings of four months commencing from 23 July 2014.

Deposit

The Tenant has paid a deposit in a sum equivalent to the aggregate of three months' based rent for the tenth year, three months' management charges for the first year, three months' promotional levy for the first year and one quarter's government rates in respect of the Lease Premises.

GUARANTEE AND INDEMNITY

Set out below are the major terms of the Guarantee and Indemnity:

Date: 27 December 2013

Parties involved:

1. The Company, as guarantor.
2. The Landlord.

The Company as guarantor executed the Guarantee and Indemnity in favour of the Landlord to guarantee the due, full, punctual and complete performance and observance by the Tenant of all its obligations, undertakings and covenants under the Lease Agreement and to undertake with the Landlord that if and whenever the Tenant shall be in breach of any of the Tenant's obligation, undertakings and covenants under the Lease Agreement or in default in the payment of rent or other sums payable by the Tenant thereunder, the Guarantor shall make good all such defaults and pay to the Landlord all such rent and other sums which maybe outstanding.

REASONS FOR ENTERING THE OFFER TO LEASE

According to information available to the Company, the Landlord is principally engaged in the development and leasing of properties located at Langham Place, Argyle Street, Kowloon, Hong Kong.

The Group is principally engaged in the production and distribution of film and television series. The Company is optimistic about the future of the film industry in Hong Kong. The Board believes that quality films will continue to attract movie goers and movie viewing will continue to be one of the more popular leisure activities for the general public in Hong Kong. The Board further believes that (a) the Leased Premises could provide a platform for the further development of the Group's film distribution business, and (b) the long term lease would allow the Group to lock in the prime location in which the Leased Premises is situated and to secure the return of the initial set up cost to the cinema and related operations and to have stable revenue stream and cash inflow attributable to the Group. Hence, the Board is of the view that the Lease Agreement and the Guarantee of Indemnity are fair and reasonable and the Lease Agreement is in the interests of the Group and the Shareholders as a whole.

Based on the current plan, the Group will commence the operation of the cinemas situated at the Leased Premises as soon as practicable after the commencement of the lease term under the Lease Agreement.

IMPLICATION OF THE GEM LISTING RULES

As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Lease Agreement exceed 25% but less than 100%, the Lease Agreement constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under the GEM Listing Rules.

As no Shareholder has a material interest in the transactions contemplated under the Lease 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 Lease Agreement and the transactions contemplated thereunder. 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 62.5% of the issued share capital of the Company as at the date of this announcement, has given its written approval for the Lease Agreement and the transactions contemplated thereunder.

A circular containing, among other things, a letter from the Board providing details on the Lease Agreement and the transactions contemplated thereunder will be despatched to the Shareholders on or before 17 January 2014 in compliance with the GEM Listing Rules.

DEFINITIONS

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| “Board” | the board of Directors; |
| “Box Office Takings” | gross amount, without deductions, of the proceeds received or receivable in respect of the sale of tickets for the cinema operated at the Leased Premises; |
| “Company” | Pegasus Entertainment Holdings Limited, a company incorporated in Cayman Islands with limited liability and the issued shares of which are listed on the GEM; |
| “Concession Takings” | gross amount, without deductions, of the proceeds received or receivable by the Tenant in respect of the sale of food, beverages and confectionery; |
| “Director(s)” | director(s) of the board of the Company; |
| “GEM” | Growth Enterprise Market of The Stock Exchange of Hong Kong Limited; |
| “GEM Listing Rules” | Rules Governing the Listing of Securities on the GEM; |
| “Group” | the Company and its subsidiaries; |
| “Guarantee and Indemnity” | the guarantee and indemnity dated 27 December 2013 executed by the Company in favour of the Landlord; |
| “Hong Kong” | Hong Kong Special Administrative Region of People’s Republic of China; |
| “Landlord” | Renaissance City Development Company Limited and Benington Limited; |
| “Lease Agreement” | the lease agreement dated 27 December 2013 entered among the Landlord and the Tenant; |

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| “Leased Premises” | cinema spaces, cinema lobbies, toilets, projection room, cinema box office, concession area together with ancillary staircases and passenger lifts; |
| “Merchandize Takings” | gross amount, without deductions, of the proceeds received or receivable of the sale of movie-related promotional items and or any other items approved by the Landlord at the Leased Premises; |
| “Offer to Lease” | the offer to lease dated 1 November 2013 made between the Tenant, the Company and Renaissance City Development Company Limited; |
| “Screen Advertising Takings” | gross amount, without deductions, of the proceeds received or receivable of the advertising shown on the screens in the cinemas at the Leased Premises, staging of gala premier, conference, concerts, charity performance approved by the Landlord and any other income generated from or at the Leased Premises; |
| “Shareholder(s)” | holder(s) of the issued shares of the Company; |
| “Tenant” | Cinema City (Langham Place) Limited, an indirect wholly-owned subsidiary of the Company; and |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong. |

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

Hong Kong, 27 December 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) for at least seven days from the date of its posting and on the Company’s website (www.pegasusmovie.com).