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PICO FAR EAST HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 752)

**FURTHER ANNOUNCEMENT
IN RELATION TO
DISCLOSEABLE TRANSACTION**

Reference is made to the announcement of the Company (the “**Announcement**”) dated 2 October 2017 in relation to a discloseable transaction of the Company. The Company would like to provide further information in relation to the Acquisition and the Purchase Agreement. Unless the context requires otherwise, capitalised terms used herein shall bear the same meaning as defined in the Announcement.

PURCHASE AGREEMENT

Consideration

As set out in the Announcement, the aggregate purchase price of the Membership Interests consists of the following components:

- (a) US\$5,500,000 in cash, which has been paid on the Completion Date;
 - (b) 4,000,000 Class A-2 Units, having an aggregate value of US\$4,000,000, which has been issued on the Completion Date;
- (item (a) and item (b) above are collectively referred to as the “**Initial Consideration**”)

- (c) a post-Completion adjustment in case the actual working capital of the Target Company as of the Completion Date is greater than or less than the pre-agreed target working capital of the Target Company (herein referred to as the “**Post-Completion Adjustment**”);
- (d) up to US\$2,000,000 in cash and up to US\$1,500,000 of Class A-2 Units, to be determined based upon the Target Company’s EBITDA for the year ending 31 December 2017 (herein referred to as the “**Holdback Consideration**”) and payable no later than 30 April 2018; and
- (e) up to US\$32,000,000 in cash and US\$8,000,000 of Class A-2 Units, to be determined based upon the Target Company’s EBITDA for the year ending 31 December 2018 and payable in three equal installments on 1 April in each of 2019, 2020 and 2021 (herein referred to as the “**Earn-Out Consideration**”).

Post-Completion Adjustment

The Initial Consideration will be adjusted by the Post-Completion Adjustment on a dollar-to-dollar basis (i.e. the surplus (or shortfall) amount will be paid to (or received from) the Sellers) in cash. The Post-Completion Adjustment was agreed to be determined according to the following formula:

$$\text{Post-Completion Adjustment} = \text{actual working capital (being current assets minus current liabilities, subject to certain accrual and other adjustments) of the Company as at the Completion Date} - \text{US\$900,000 (being the target working capital of the Target Company)}$$

Within 90 days after the Completion Date, the Target Company shall prepare and deliver a closing working capital statement. If no objection is raised within 30 days, the Post-Completion Adjustment shall be payable within 10 days thereafter. Based on the management accounts of the Target Company as at 30 June 2017, the Post-Completion Adjustment would amount to a shortfall of approximately US\$0.56 million payable by the Sellers to the Buyer.

Holdback Consideration

The Holdback Consideration will be determined as follows:

Actual EBITDA of the Target Company achieved for the year ending 31 December 2017	Holdback Consideration	
	Cash	Class A-2 Units
Equal to or greater than US\$2,500,000	US\$2,000,000	US\$1,500,000
Equal to or greater than US\$1,750,000 but less than US\$2,500,000	US\$2,000,000 × $\frac{\text{Target Company's EBITDA for 2017} - \text{US\$1,750,000}}{\text{US\$750,000}}$	US\$1,500,000 × $\frac{\text{Target Company's EBITDA for 2017} - \text{US\$1,750,000}}{\text{US\$750,000}}$
Less than US\$1,750,000	Nil	

Earn-Out Consideration

The Earn-Out Consideration will be determined according to the following formula and payable to the Sellers as to 80% in cash and 20% by issuance of Class A-2 Units. Capitalised terms in relation to the calculation of the Earn-Out Consideration follow the definitions below.

The Earn-out Consideration = the Base Valuation net of the Reduction Amount – the total of the Initial Consideration (after the Post-Completion Adjustment) and the Holdback Consideration

If the Earn-Out Consideration is negative, there would not be any Earn-Out Consideration payable by the Buyer.

“**Average EBITDA**” means an amount equal to the average of the Company’s actual EBITDA for the year ending 31 December 2018 and the 2019 Projected EBITDA.

“**Base Valuation**” means the base valuation of the Company calculated as the product of the Average EBITDA and the applicable multiplier indicated in the following chart:

Average EBITDA:	Base Valuation multiplier:
< US\$3,000,000	0x (i.e., Base Valuation = \$0)
≥ US\$3,000,000 and < US\$4,000,000	8x (i.e., Base Valuation between US\$24,000,000 and US\$32,000,000)
≥ US\$4,000,000 and < US\$4,600,000	9x (i.e., Base Valuation between US\$36,000,000 and US\$41,400,000)
≥ US\$4,600,000	10x (i.e., Base Valuation of US\$46,000,000 or greater, up to maximum of US\$53,000,000)

“**Reduction Amount**” means the amount to be deducted from the Base Valuation as calculated under the Purchase Agreement in the event that the revenue from a single client exceeds certain percentage of the total revenue of the Target Company and/or the Target Company is unable to achieve the performance milestones in relation to the development of the Target Company’s web application as specified in the Purchase Agreement.

“**2019 Projected EBITDA**” means

- (a) if the Company’s actual EBITDA for the year ending 31 December 2018 is equal to or greater than US\$4,200,000, US\$5,450,000;
- (b) if the Company’s actual EBITDA for the year ending 31 December 2018 is equal to or greater than US\$3,360,000 but less than US\$4,200,000, an amount equal to:

$$\text{US\$5,450,000} \times \frac{\text{the Company's actual EBITDA for the year ending 31 December 2018}}{\text{US\$4,200,000}} ; \text{ or}$$
- (c) if the Company’s actual EBITDA for the year ending 31 December 2018 is less than \$3,360,000, an amount equal to the Company’s actual EBITDA for the year ending 31 December 2018.

Value of Class A-2 Units

The Class A-1 Units were subscribed for prior to the Acquisition and on Completion at US\$1 each while the Class A-2 Units were issued at the time of the Completion at US\$1 each. If there is no further issue of Class A Units (including Class A-1 Units and Class A-2 Units) prior to the issue of the Class A-2 Units for payment of the Holdback Consideration or the Earn-Out Consideration (as the case may be), Class A-2 Unit will be issued for the Holdback Consideration and the Earn-Out Consideration at US\$1.00 per unit. If there is any further issue of Class A Units of significance (being issue of new Class A Units representing 15% or more on an enlarged basis, the “**Previous Significant Issue**”) prior to the next issue of the Class A-2 Units for payment of the Holdback Consideration or the Earn-Out Consideration (as the case

may be), Class A-2 Unit will be issued for payment of the Holdback Consideration or the Earn-Out Consideration at the value of Class A Unit per unit in such Previous Significant Issue. The board of directors of MTM Choice Holdings has the power and sole discretion (subject to certain limited approval rights in favour of the Class A-2 Members) in deciding whether or not to issue further Class A Units and at what per unit value.

In summary, the maximum consideration of US\$53,000,000 is comprised of the following cash and Class A-2 Units:

Component of consideration	Amount payable in cash	Amount payable in Class A-2 Units
Initial Consideration	US\$5,500,000, subject to the Post-Completion Adjustment	US\$4,000,000
Holdback Consideration	Up to US\$2,000,000	Up to US\$1,500,000
Earn-Out Consideration	Up to US\$32,000,000	Up to US\$8,000,000
Subtotal	Up to US\$39,500,000	Up to US\$13,500,000
Grand total	Up to US\$53,000,000	

INFORMATION ON MTM CHOICE HOLDINGS

MTM Choice Holdings is a limited liability company organized in Delaware, USA on 30 November 2016 to develop an integrated portfolio of brand activation companies. MTM Choice Holdings wholly owns MTM Choice. After the Acquisition, MTM Choice Holdings wholly owns MTM Choice which in turn wholly owns the Target Company.

Financial information

Set out below is the unaudited consolidated financial information of MTM Choice Holdings for the period from its date of formation (being 30 November 2016) up to 30 April 2017 extracted from its unaudited management accounts:

**From 30 November 2016
to 30 April 2017**

*Unaudited
US\$' million*

Net loss before taxation	0.3
Net loss after taxation	0.3

MTM Choice Holdings and MTM Choice did not record any revenue from 30 November 2016 to 30 April 2017. The unaudited consolidated net asset value of MTM Choice Holdings was approximately US\$0.12 million as at 30 April 2017.

Nature of Class A-1, Class A-2 and Class B Units

MTM Choice Holdings does not have any shares. The membership interests of MTM Choice Holdings consist of Class A Units (which are further subdivided into Class A-1 Units and Class A-2 Units) and Class B Units. They are non-redeemable. The rights and obligations of the Members are summarised as follows:

Distribution

According to the constitutional document of MTM Choice Holdings, in the event that MTM Choice Holdings makes cash distributions to its members (other than tax distributions), such distributions will be allocated between the Members according to their respective class in the following order of priority:

- (1) First, any available distribution will be distributed to each Class A Member, pro rata, in accordance with its Class A Units percentage interests, until it has received distributions on a cumulative basis equal to its capital contributions made to MTM Choice Holdings;
- (2) Secondly, distributions will be made to each Class A Member, pro rata, in accordance with its Class A Units percentage interests, until it has received a six percent (6%) per annum cumulative (i.e., non-compounding) “preferred return” on its capital contributions;
- (3) Thirdly, a “catch-up” distribution will be distributed to the Class B Member until it has received 20% of the distributions made under paragraph (2) above and this paragraph (3); and

- (4) Thereafter, any remaining balance will be split between Class A Members and the Class B Member, in which 80% will be distributed to Class A Members, pro rata, in accordance with their respective Class A Units percentage interests, and 20% will be distributed to the Class B Member.

Approval rights

As long as the Class A-2 Members hold at least 4,000,000 Class A-2 Units in aggregate, the following matters will require the Class A-2 Members' approval:

- (1) amendment of the constitutional document of the Target Company that can reasonably be deemed to materially and adversely affect the right of the Class A-2 Members in a disproportionate manner, except the issuance of membership units;
- (2) distribution of capital other than in accordance with the constitutional document;
- (3) the Target Company's redemption or repurchase of any units other than in accordance with the constitutional document; and
- (4) admitting new members to the Target Company other than in accordance with the constitutional document.

Voting rights

Other than the limited approval rights in favour of the Class A-2 Members mentioned above, neither Class A (including Class A-1 and Class A-2) Members nor the Class B Member have voting right in MTM Choice Holdings in their capacities as Members. The board of MTM Choice Holdings has the power to control the day-to-day business activities of MTM Choice Holdings.

Right to nominate directors

According to the constitutional document of MTM Choice Holdings, Class A-1 Members shall be entitled to appoint two directors and Class B Member shall be entitled to appoint one director. For so long as Class A-2 Members hold at least 10,000,000 Class A Units or Class A Units having a value of at least US\$10,000,000, they shall be entitled to appoint one director. As at the Completion Date, the Company, through its wholly-owned subsidiary, has the right to appoint two out of the three directors of MTM Choice Holdings and MTM Choice Holdings is a subsidiary of the Company. Upon payment of the Earn-out Consideration, if the Class A-2 Members become holding at least 10,000,000 Class A-2 Units, they will be entitled to appoint one director and the Company would then become entitled to appoint two out of four directors; in such case, and MTM Choice Holdings would cease to be a subsidiary of the Company.

Transferability

Except in certain circumstances such as the transferee being an affiliate of the Member, any transfer of the Members' units in MTM Holdings is subject to a right of first refusal in favour of MTM Holdings itself and permission of the board of the MTM Holdings to determine that transferee or its affiliate is not a competitor and the transfer is lawful and in compliance with the terms of the constitutional document of MTM Holdings. The transfer is also subject to certain drag along and tag along provisions as set out in the constitutional document of MTM Holdings.

Holding structure of the Units

The consideration for the Acquisition will be satisfied partly by issue of Class A-2 Units and partly by cash. The following table provides the holding structure of the Units in various stages of the transaction:

	Pico USA, Inc.		Sellers		Class B Member	
	Class A-1 Units	% of distribution entitlement <i>(Note 4)</i>	Class A-2 Units	% of distribution entitlement <i>(Note 4)</i>	Class B Units	% of distribution entitlement <i>(Note 4)</i>
Immediately before Completion	1,380,000	80%	-	-	10,000	20%
Immediately after Completion	6,880,000 <i>(Note 1)</i>	50.6%	4,000,000	29.4%	10,000	20%
After paying Holdback Consideration	6,880,000 <i>(Note 2)</i>	44.5%	5,500,000 <i>(Note 3)</i>	35.5%	10,000	20%
After paying Earn-Out Consideration	6,880,000 <i>(Note 2)</i>	27.0%	13,500,000 <i>(Note 3)</i>	53.0%	10,000	20%

Note 1: On Completion, Pico USA, Inc. subscribed for 5,500,000 Class A-1 Units at US\$1 each. The proceeds were used to settle the cash portion of the Initial Consideration.

Note 2: Pico USA, Inc. intends to subscribe for additional Class A-1 Units when the Holdback Consideration and Earn-Out Consideration become payable thereby increasing its holding of Class A-1 Units and its % of distribution entitlement of MTM Holdings.

Note 3: These represent maximum numbers of Class A-2 Units that may be issued at US\$1 each.

Note 4: Cash distribution by MTM Choice Holdings shall follow the priority as set out in the section headed "Distribution" in this announcement. The percentages of distribution entitlement in the table are based on the case that all distributions under items (1), (2) and (3) as set out in the section headed "Distribution" in this announcement have been satisfied.

BASIS OF CONSIDERATION

In determining the Consideration for the Acquisition, the management of MTM Choice Holdings made reference to a number of factors, and more importantly, (i) the business model of the Target Company, (ii) the Target Company's techniques, which are foundational elements in MTM Choice Holdings' business strategy, (iii) the EBITDA targets and other performance targets that the Target Company needs to achieve in order for the maximum price to apply, (iv) future prospects of the Target Company, and (v) certain relevant past sale and purchase transactions of companies of similar business nature to the Target Company.

In particular, the Board took into account that the Initial Consideration (subject to Post-Completion Adjustment) is fixed and not depending on future earnings of the Target Company while the Holdback Consideration and the Earn-Out Consideration are only payable if the targeted future earnings are achieved by the Target Company. Based on the Initial Consideration and the net profit of the Target Company for the year ended 31 December 2016, the price-to-earning ratio of the Target Company would be 18 times. Based on the Initial Consideration plus the maximum Holdback Consideration, and the targeted EBITDA for the year ending 31 December 2017 of US\$2,500,000 (the minimum earnings to be entitled to the maximum Holdback Consideration), the Price/EBITDA ratio of the Target Company would be 5.2 times. Based on the Initial Consideration plus the maximum Holdback Consideration and the maximum Earn-Out Consideration, and the targeted EBITDA for the year ending 31 December 2018 of US\$5,150,000 (the minimum earnings to be entitled to the maximum Consideration), the Price/EBITDA ratio of the Target Company would be 10.3 times. Having considered the aforesaid factors and market data of comparable companies, the Directors are of the view that the Consideration is fair and reasonable.

Furthermore, the Directors consider that issue of Class A-2 Units as part payment of the consideration of the Acquisition (in lieu of cash) would provide for saving in the Group's financial resources as well as align the interests of the Sellers (who becomes holders of Units in MTM Choice Holdings and are senior management of the Target Company) with the success and continuous growth of MTM Choice Holdings and its subsidiaries including the Target Company since Completion, and hence is fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company has conducted due diligence and investigation against the Target Company including legal due diligence and financial due diligence, as well as obtaining testimonials of customers of the Target Company.

LISTING RULES IMPLICATIONS

The issuance of Class A-2 Units pursuant to the Acquisition constitutes a deemed disposal under Chapter 14 of the Listing Rules but none of the percentage ratios (as defined in Rule 14.07 of the Listing Rules) exceeds 5%. As stated in the Announcement, the acquisition of the Target Company constitutes a discloseable transaction. Taking into account the deemed disposal, the Acquisition remains to be a discloseable transaction for the Company.

DEFINITIONS

“Class A Member(s)”	Member(s) holding Class A Unit(s)
“Class A Unit(s)”	Class A Unit(s) (including Class A-1 Unit(s) and Class A-2 Unit(s)) of MTM Choice Holdings
“Class A-1 Unit(s)”	Class A-1 Unit(s) of MTM Choice Holdings
“Class A-2 Unit(s)”	Class A-2 Unit(s) of MTM Choice Holdings
“Class B Member”	the Member holding Class B Units
“Class B Unit(s)”	Class B Unit(s) of MTM Choice Holdings
“Consideration”	the Initial Consideration (after the Post-Completion Adjustment), the Holdback Consideration and the Earn-Out Consideration

“Earn-Out Consideration”	part of the Consideration of the Acquisition as specified in the section headed “Consideration” in this announcement
“Holdback Consideration”	part of the Consideration of the Acquisition as specified in the section headed “Consideration” in this announcement
“Initial Consideration”	part of the Consideration of the Acquisition as specified in the section headed “Consideration” in this announcement
“Member(s)”	member(s) of MTM Choice Holdings
“Pico USA, Inc.”	Pico USA, Inc., a subsidiary of the Company
“Post-Completion Adjustment”	the adjustment to the Initial Consideration after Completion as specified in the section headed “Consideration” in this announcement
“Units”	Class A Units and/or Class B Units

By Order of the Board
Pico Far East Holdings Limited
Lawrence Chia Song Huat
Chairman

Hong Kong, 18 October 2017

As at the date of this announcement, the executive Directors are Mr. Lawrence Chia Song Huat, Ms. Jean Chia Yuan Jiun and Mr. Mok Pui Keung; and the independent non-executive Directors are Mr. Gregory Robert Scott Crichton, Mr. James Patrick Cunningham, Mr. Frank Lee Kee Wai and Mr. Charlie Yucheng Shi.