Transmit Entertainment Limited
傳遞娛樂有限公司

(Formerly Pegasus Entertainment Holdings Limited (天馬影視文化控股有限公司))

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

MAJOR TRANSACTION
IN RELATION TO THE VIE ACQUISITION AGREEMENT

VIE ACQUISITION AGREEMENT

The Board hereby announces that on 27 May 2018, Guangzhou Huohua (a wholly-owned subsidiary of the Company), Guangzhou Daide and PRC Equity Owners entered into the VIE Acquisition Agreement pursuant to which the parties shall upon Completion enter into the VIE Operating Agreements, under which Guangzhou Huohua will have effective control over the finance and operation of Guangzhou Daide and the Target Group and will enjoy the entire economic interests and benefits generated by Guangzhou Daide and the Target Group from Completion, for a cash consideration of RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement).

Upon Completion, the financial results of Guangzhou Daide and the Target Group will be consolidated into the financial results of the Company and Guangzhou Daide and the Target Group will become subsidiaries of the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Acquisition Agreement exceed 25% and all the applicable percentage ratios are less than 100%, the entering into of the VIE Acquisition Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

To the best of the Directors' knowledge, information and belief, and after having made all reasonable enquiries, no Shareholder (including Nice Rich) is required to abstain from voting if the Company were to convene a general meeting for approving the entering into of the VIE Acquisition Agreement and transactions contemplated thereunder. As at the date of this announcement, Nice Rich, holding approximately 70.75% of the issued share capital of the Company, has provided a written Shareholder's approval on the entering into of the VIE Acquisition Agreement and transactions contemplated thereunder. As such, no general meeting will be convened for approving the entering into of the VIE Agreements and transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

Since the Directors expect that additional time is required for the preparation of the relevant information to be included in the circular, which will contain, among other things, details of the VIE structure and other information as required under the Listing Rules, the circular is expected to be despatched to the Shareholders on or before 30 June 2018.

Shareholders and potential investors of the Company should note that Completion is subject to the fulfillment or waiver (as the case may be) of the relevant Conditions, therefore Completion may or may not proceed. Accordingly, the transactions contemplated under the VIE Agreements may or may not materialise. Shareholders and potential investors of the Company are urged to exercise caution when dealing in the securities of the Company.

THE VIE AGREEMENTS

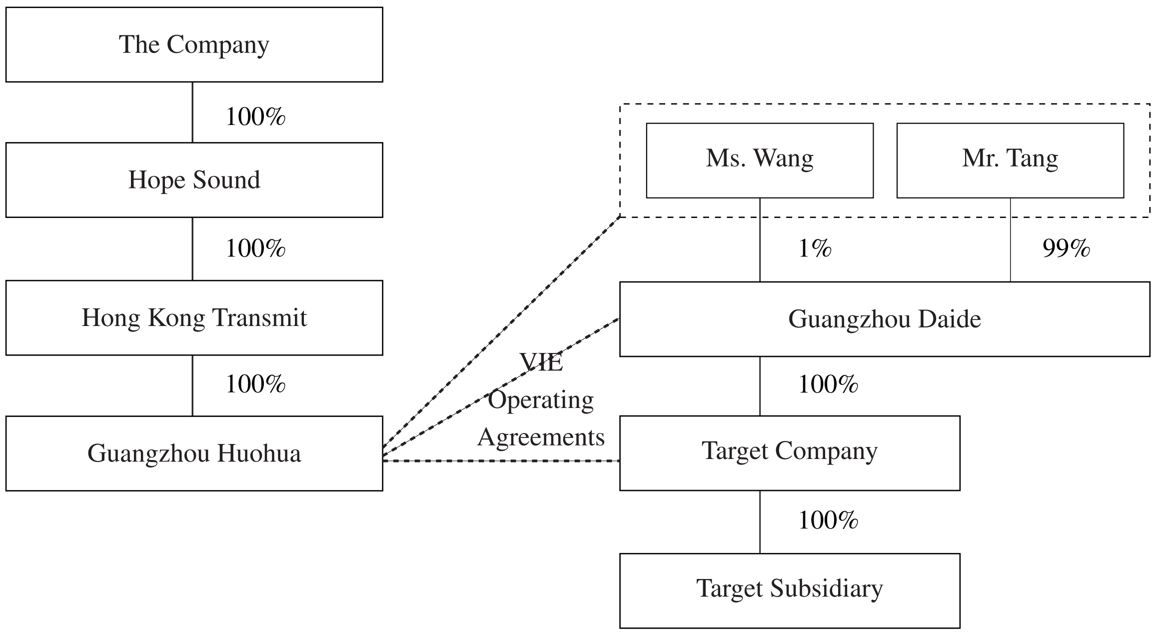
Background and reasons for use of the VIE Agreements

The Group is principally engaged in (i) film and TV series production, distribution and licensing of film rights, (ii) film exhibitions, (iii) post production, and (iv) advertising, marketing and publication.

The Target Company is principally engaged in radio and television program production and operation (including introduction business). Pursuant to the Catalogue of Industries for Guiding Foreign Investment (2017 revised version) (《外商投資產業指導目錄(2017年修訂)》) (the "**Catalogue**") promulgated by the Ministry of Commerce, the principal business of the Target Company, falls within the prohibited industries for foreign investment. In light of the abovementioned foreign ownership restriction, in order to comply with applicable PRC laws and regulations and obtain the entire economic benefits attributable to the Target Group, Guangzhou Huohua (a wholly-owned subsidiary of the Company), Guangzhou Daide and PRC Equity Owners entered into the VIE Acquisition Agreement pursuant to which the parties agree to enter into the VIE Operating Agreements upon Completion. Under the VIE Operating Agreements, Guangzhou Huohua will have effective control over the finance and operation of Guangzhou Daide and the Target Group and will enjoy the entire economic interests and benefits generated by Guangzhou Daide and the Target Group from Completion.

Details of the VIE Agreements

The following diagram illustrates the flow of economic benefits from the Target Group to Guangzhou Huohua under the VIE Agreements:



THE VIE ACQUISITION AGREEMENT

The Board hereby announces that on 27 May 2018, Guangzhou Huohua (a wholly-owned subsidiary of the Company), Guangzhou Daide and PRC Equity Owners entered into the VIE Acquisition Agreement, pursuant to which the parties shall upon Completion enter into the VIE Operating Agreements. Under the VIE Operating Agreements, Guangzhou Huohua will have effective control over the finance and operation of Guangzhou Daide and the Target Group and will enjoy the entire economic interests and benefits generated by Guangzhou Daide and the Target Group from Completion, for a cash consideration of RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement).

The principal terms and conditions of the VIE Acquisition Agreement are as follows:

Date:

27 May 2018

Parties:

(1) Guangzhou Huohua, an indirect wholly-owned subsidiary of the Company which is an investment holding company;

(2) Guangzhou Daide, a company established in the PRC with limited liability and is an investment holding company; and

(3) PRC Equity Owners, holders of the entire equity interest of Guangzhou Daide and residents in the PRC.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Guangzhou Daide and its ultimate beneficial owners, namely the PRC Equity Owners, are Independent Third Parties.

Subject matter of the VIE Acquisition Agreement

Pursuant to the VIE Acquisition Agreement, each of Guangzhou Huohua, Guangzhou Daide and PRC Equity Owners agree to enter into the VIE Operating Agreements upon Completion. Pursuant to the VIE Operating Agreements, Guangzhou Huohua will, as permitted under the PRC laws, have effective control over the finance and operation of Guangzhou Daide and the Target Group and will enjoy the entire economic interests and benefits generated by Guangzhou Daide and the Target Group from Completion.

Under the VIE Acquisition Agreement, Guangzhou Huohua shall, upon Completion, enter into the Loan Agreement with Guangzhou Daide, pursuant to which, it shall grant a loan facility of RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement) to Guangzhou Daide by installments corresponding to the payment schedule of Guangzhou Daide under the Equity Transfer Agreement to facilitate the acquisition of the Target Group by Guangzhou Daide under the Equity Transfer Agreement.

Upon Completion, the financial results of Guangzhou Daide and the Target Group will be consolidated into the financial results of the Company and Guangzhou Daide and the Target Group will become subsidiaries of the Company.

Conditions Precedent

Completion is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

(1) the Company having completed its due diligence investigation on Guangzhou Daide and the Target Group in respect of but without limitation to its business prospects, financial, legal, tax, intellectual properties and other matters and conditions, and the Company being satisfied with the results of the due diligence investigation at its absolute discretion;

(2) the Company having obtained a valuation report issued by an independent qualified valuer reflecting a valuation of the Target Group of not less than the amount of the Consideration in a form and substance satisfactory to Guangzhou Huohua at its absolute discretion;

(3) the parties to the VIE Acquisition Agreement having obtained all the necessary approvals and consents for the transactions contemplated under the VIE Acquisition Agreement;

(4) the Company having obtained the approval of the Shareholders of the VIE Acquisition Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

(5) the Company having received a legal opinion issued by the PRC Legal Advisers which confirms certain PRC contractual matters in respect of the transactions under the VIE Agreements and the Company being satisfied with the form and substance of such legal opinion at its absolute discretion;

(6) nothing having happened that has caused or will cause any material adverse change to the transactions under the VIE Acquisition Agreement and the financial condition, business, assets, sales performance, or business prospects of Guangzhou Daide and the Target Group;

(7) all the representations, warranties and undertakings made in the VIE Acquisition Agreement remaining true and accurate up to the date of Completion; and

(8) the conditions precedent in the Equity Transfer Agreement having become fulfilled (or waived, if applicable).

Under the VIE Acquisition Agreement, save for conditions precedent (4) and (8) above, Guangzhou Huohua may at its absolute discretion waive the conditions precedent. If any of the conditions precedent is not fulfilled (or if applicable, waived) on or before the Long Stop Date, the VIE Acquisition Agreement shall lapse and be of no further effect.

Consideration

The Consideration of RMB450,000,000 for acquisition of the entire equity interests of the Target Company under the Equity Transfer Agreement (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement) to be paid by Guangzhou Daide under the VIE Acquisition Agreement shall be funded by way of a loan facility granted to Guangzhou Daide by Guangzhou Huohua under the Loan Agreement.

Completion

Completion of the VIE Acquisition Agreement shall take place on the date of completion of the Equity Transfer Agreement or such other date as the parties to the VIE Acquisition Agreement may agree in writing.

Upon Completion, the relevant parties shall enter into the VIE Operating Agreements.

THE EQUITY TRANSFER AGREEMENT

Guangzhou Daide and the Vendors entered into the Equity Transfer Agreement on 27 May 2018, pursuant to which Guangzhou Daide conditionally agreed to acquire, and the Vendors conditionally agreed to sell the entire equity interests of the Target Company as at completion of the Equity Transfer Agreement for the Consideration of RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement).

The principal terms and conditions of the Equity Transfer Agreement are as follows:

Date:

27 May 2018

Parties:

Purchaser : (1) Guangzhou Daide

Vendors : (2) Tianjin Juhai, a limited partnership established in the PRC which is principally engaged in the production of movies, TV drama and animations. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Tianjin Juhai and its ultimate beneficial owner are Independent Third Parties.

(3) Xizang Juanqifeng, a company established in the PRC with limited liability which is principally engaged in the provision of artist agency services. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Xizang Juanqifeng and its ultimate beneficial owner are Independent Third Parties.

(4) Ningbo Meishan, a limited partnership established in the PRC which is principally engaged in movie distribution. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Ningbo Meishan and its ultimate beneficial owner are Independent Third Parties.

(5) Huzhou Yiqianyan, a limited partnership established in the PRC which is principally engaged in film and TV shows investment. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Huzhou Yiqianyan and its ultimate beneficial owner are Independent Third Parties.

(6) Huzhou Shengyi, a limited partnership established in the PRC which is principally engaged in film and TV shows investment. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Huzhou Shengyi and its ultimate beneficial owner are Independent Third Parties.

(7) Hangzhou Yikai, a limited partnership established in the PRC which is principally engaged in investment management. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Hangzhou Yikai and its ultimate beneficial owner are Independent Third Parties.

(8) Shanghai Yuantong, a company established in the PRC which is principally engaged in public relations event management. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Shanghai Yuantong and its ultimate beneficial owner are Independent Third Parties.

Assets to be acquired

Under the Equity Transfer Agreement, Guangzhou Daide will acquire the entire equity interests of the Target Company for a consideration of RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement) and will become the registered owner of the Target Company upon completion of the Equity Transfer Agreement. The Target Company in turn owns the entire equity interests of the Target Subsidiary.

Under the VIE Agreements, despite the fact that Guangzhou Daide will be the registered owner of the Target Company, Guangzhou Huohua will have effective control over the finance and operation of the Target Group and will enjoy the entire economic interests and benefits generated by the Target Group.

Consideration

The Consideration is RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement) which shall be satisfied by Guangzhou Daide in cash payable to the designated bank accounts of the Vendors in the following manner:

(a) RMB135,000,000, being 30% of the Consideration, shall be paid by Guangzhou Daide to the Vendors according to their respective shareholding proportions within three (3) months from the date of Completion;

(b) RMB135,000,000 (the "**Second Consideration**"), being 30% of the Consideration, minus any deduction to be made pursuant to the 2018 Profit Guarantee (as defined below under the section headed "The Profit Guarantee Agreement"), shall be paid by Guangzhou Daide to the Vendors according to their respective shareholding proportions within five (5) days upon the receipt by Guangzhou Huohua of the consolidated audited accounts of the Target Group in respect of the financial year ending on 31 December 2018; and

(c) RMB180,000,000 (the "**Third Consideration**"), being 40% of the Consideration, minus any deduction to be made pursuant to the 2019 Profit Guarantee (as defined below under the section headed "The Profit Guarantee Agreement"), shall be paid by Guangzhou Daide to the Vendors according to their respective shareholding proportions within five (5) days upon receipt by Guangzhou Huohua of the consolidated audited accounts of the Target Group in respect of the financial year ending on 31 December 2019.

Basis of the Consideration

The Consideration was arrived after arm's length negotiations amongst Guangzhou Huohua and the Vendors after taking into account, among others, the following factors:

(1) the unaudited total asset value of the Target Group of approximately RMB83.7 million for the financial year ended 31 December 2017;

(2) the profit guarantee provided by the Vendors to Guangzhou Daide under the Profit Guarantee Agreement;

(3) the business development and future prospect of the Target Group; and

(4) the preliminary valuation result of the Target Group as evaluated by the independent qualified valuer of not less than RMB450,000,000.

The Consideration will be financed by Guangzhou Daide through a loan facility provided by Guangzhou Huohua to Guangzhou Daide under the Loan Agreement, details of which are set out below under the section headed "Loan Agreement".

Conditions Precedent

Completion of the Equity Transfer Agreement is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

(1) the Vendors having provided a written declaration to relinquish their pre-emptive rights of the equity interests of the Target Company;

(2) the shareholders of the Target Company having approved the transfer of the entire equity interests of the Target Company to Guangzhou Daide pursuant to the Equity Transfer Agreement;

(3) the conditions precedent in the VIE Acquisition Agreement (except for item (8) as set out in the paragraph headed "The VIE Acquisition Agreement — Conditions Precedent" above) having become fulfilled (or waived, if applicable);

(4) the registered capital of the Target Company having been fully paid up;

(5) all parties to the Equity Transfer Agreement having obtained all the necessary approvals and consents for the transactions contemplated under the Equity Transfer Agreement;

(6) nothing having happened that has caused or will cause any material adverse change to the financial condition, business, assets, sales performance, or business prospects of the Target Group; and

(7) all the representations, warranties and undertakings made in the Equity Transfer Agreement remaining true and accurate up to the date of Completion.

Under the Equity Transfer Agreement, save for condition precedent (3) above, Guangzhou Daide at the direction of Guangzhou Huohua may at its absolute discretion waive the conditions precedent. If any of the conditions precedent is not fulfilled (or if applicable, waived) on or before the Long Stop Date, the Equity Transfer Agreement shall lapse and be of no further effect.

Completion

Within 30 business days upon the Equity Transfer Agreement becomes unconditional, the Vendors shall assist Guangzhou Daide to complete the change of business registration of the Target Company. Completion of the Equity Transfer Agreement shall take place upon completion of the change of business registration of the Target Company.

THE PROFIT GUARANTEE AGREEMENT

Date:

27 May 2018

Parties:

Beneficiary	:	(1)	Guangzhou Daide
Guarantor	:	(2)	Tianjin Juhai
		(3)	Xizang Juanqifeng
		(4)	Ningbo Meishan
		(5)	Huzhou Yiqianyan
		(6)	Huzhou Shengyi
		(7)	Hangzhou Yikai
		(8)	Shanghai Yuantong

Subject matter of the Profit Guarantee Agreement

Pursuant to the Profit Guarantee Agreement, subject to completion of the Equity Transfer Agreement, the Vendors have jointly and severally guaranteed to Guangzhou Daide that the consolidated Audited Profit of the Target Group in respect of the financial years ending 31 December 2018 and 31 December 2019 will not be less than RMB40,000,000 ("**2018 Profit Guarantee**") and RMB60,000,000 ("**2019 Profit Guarantee**") respectively.

In the event that the consolidated Audited Profit of the Target Group for the financial year ending 31 December 2018 is not satisfied, the Second Consideration to be paid by Guangzhou Daide shall be deducted by the following amount:

Amount to be reduced =

$$\text{Consideration} \times \frac{(\text{2018 Profit Guarantee} - \text{2018 Audited Profit})}{(\text{2018 Profit Guarantee})} \times 30\%$$

In the event that the consolidated Audited Profit of the Target Group for the financial year ending 31 December 2019 is not satisfied, the Third Consideration to be paid by Guangzhou Daide shall be deducted by the following amount:

Amount to be reduced =

$$\text{Consideration} \times \frac{(\text{2019 Profit Guarantee} - \text{2019 Audited Profit})}{(\text{2019 Profit Guarantee})} \times 40\%$$

In the event that the Target Group incurs net loss in each of the financial years ending 31 December 2018 and 31 December 2019, the Audited Profit of the Target Company for such financial year shall be deemed as zero. The maximum amount of deduction to the Second Consideration and the Third Consideration shall be RMB135,000,000 and RMB180,000,000 respectively.

THE VIE OPERATING AGREEMENTS

(1) The Exclusive Operation Service Agreement

Date:

Upon Completion

Parties:

(1) Guangzhou Huohua;

(2) Guangzhou Daide;

(3) PRC Equity Owners; and

(4) the Target Company.

(Guangzhou Daide and the Target Company, collectively the "**Services Recipients**")

Subject matter of the Exclusive Operation Service Agreement

Pursuant to the Exclusive Operation Service Agreement, the Services Recipients agree to engage Guangzhou Huohua as its exclusive consultant and service provider. Guangzhou Huohua has the exclusive right to provide the Services Recipients with consulting services including but not limited to: (1) provision of advice on the operations of the movie and drama production business of the Services Recipients; (2) management and consultation related to the movie and drama production business of the Services Recipients, and training of the staff of the Services Recipients; (3) provision of advice on human resources; (4) assistance on market research; (5) selection and introductions of clients; (6) formulation of operation and sales strategies; (7) quality control of the movie and drama production business of the Services Recipients; and (8) provision of advice on financing.

Guangzhou Huohua has proprietary rights to all the intellectual properties developed or created by Guangzhou Huohua from the performance of these services. During the term of the Exclusive Operation Service Agreement, Guangzhou Huohua may use the intellectual property rights owned by the Services Recipients free of charge and without any conditions. The Services Recipients may also use the intellectual property work created by Guangzhou Huohua from the services performed by Guangzhou Huohua in accordance with the Exclusive Operation Service Agreement.

Services fee

Guangzhou Daide shall pay to Guangzhou Huohua a service fee which is equal to 100% of the audited annual distributable profits (after deduction of any loss of the previous year and statutory provident fund (if applicable)) before 30 June of every year.

The services fee was determined by the parties to ensure that Guangzhou Huohua will enjoy the economic benefits of the VIE Agreements.

(2) The Exclusive Option Agreements

The Exclusive Option Agreements comprise of Exclusive Option Agreement (Guangzhou Daide) and Exclusive Option Agreement (Target Company) which are of substantial similar terms.

Date:

Upon Completion

Parties:

For Exclusive Option Agreement (Guangzhou Daide):

(1) Guangzhou Huohua;

(2) PRC Equity Owners; and

(3) Guangzhou Daide.

For Exclusive Option Agreement (Target Company):

(1) Guangzhou Huohua;

(2) Guangzhou Daide; and

(3) Target Company.

Subject matter of the Exclusive Option Agreements

Pursuant to the Exclusive Option Agreement (Guangzhou Daide),

(i) Each of PRC Equity Owners irrevocably and unconditionally grants an exclusive option to Guangzhou Huohua which entitles Guangzhou Huohua to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interest in the Guangzhou Daide by itself or through its designated person(s); and

(ii) Guangzhou Daide irrevocably and unconditionally grants an exclusive option to Guangzhou Huohua which entitles Guangzhou Huohua to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the assets of Guangzhou Daide by itself or through its designated person(s).

Pursuant to the Exclusive Option Agreement (Target Company),

(i) Guangzhou Daide irrevocably and unconditionally grants an exclusive option to Guangzhou Huohua which entitles Guangzhou Huohua to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the equity interest in the Target Company by itself or through its designated person(s); and

(ii) the Target Company irrevocably and unconditionally grants an exclusive option to Guangzhou Huohua which entitles Guangzhou Huohua to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the Target Company by itself or through its designated person(s).

Under the Exclusive Option Agreements, without the Guangzhou Huohua's prior written consent, each of Guangzhou Daide and PRC Equity Owners will not themselves or procure others to sell, transfer, mortgage or otherwise dispose of all or part of the equity interests in or assets of Guangzhou Daide and the Target Company.

The Exercise Price

The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of PRC Equity Owners, Guangzhou Daide and the Target Company will undertake that she/he/it will return in full the consideration received in relation to such transfer of equity interests or assets to Guangzhou Huohua or its designated person(s).

The exercise price was determined by the parties to ensure that Guangzhou Huohua will enjoy the economic benefits of the VIE Agreements.

(3) Entrustment Agreements and Powers of Attorney

The Entrustment Agreements and Powers of Attorney comprise of Entrustment Agreement and Powers of Attorney (Guangzhou Daide) and Entrustment Agreement and Powers of Attorney (Target Company) which are of substantial similar terms.

Date:

Upon Completion

Parties:

For Entrustment Agreement and Powers of Attorney (Guangzhou Daide):

(1) Guangzhou Huohua;

(2) PRC Equity Owners; and

(3) Guangzhou Daide.

For Entrustment Agreements and Powers of Attorney (Target Company):

(1) Guangzhou Huohua;

(2) Guangzhou Daide; and

(3) Target Company.

Subject matter of the Entrustment Agreements and Powers of Attorney

Each of PRC Equity Owners irrevocably appoints Guangzhou Huohua or its designated person(s) (other than the PRC Equity Owners) as its attorney-in-fact to act for all matters pertaining to the Guangzhou Daide and to exercise all of their rights as shareholders of the Guangzhou Daide, including but not limited to:

(i) proposing to convene and attend shareholders' meetings of the Guangzhou Daide;

(ii) exercising all the voting rights as shareholders of the Guangzhou Daide;

(iii) dealing with the rights as a shareholder to the assets and profits of the Guangzhou Daide;

(iv) transferring or disposing of the shares of the Guangzhou Daide;

(v) receiving notice of convening and proceedings of shareholders' meetings of the Guangzhou Daide, signing minutes of shareholders' meetings and submitting any documents to relevant company registration authorities for filing purpose;

(vi) receiving the remaining assets of the Guangzhou Daide upon its dissolution or liquidation; and

(vii) exercising all other shareholders' rights under other applicable PRC laws and regulations and the articles of association (as amended from time to time) of the Guangzhou Daide.

Guangzhou Daide irrevocably appoints Guangzhou Huohua or its designated person(s) (other than the PRC Equity Owners) as its attorney-in-fact to act for all matters pertaining to the Target Company and to exercise all of their rights as shareholders of the Target Company, including but not limited to:

(i) proposing to convene and attend shareholders' meetings of the Target Company;

(ii) exercising all the voting rights as shareholders of the Target Company;

(iii) dealing with the rights as a shareholder to the assets and profits of the Target Company;

(iv) transferring or disposing of the shares of the Target Company;

(v) receiving notice of convening and proceedings of shareholders' meetings of the Target Company, signing minutes of shareholders' meetings and submitting any documents to relevant company registration authorities for filing purpose;

(vi) receiving the remaining assets of the Target Company upon its dissolution or liquidation; and

(vii) exercising all other shareholders' rights under other applicable PRC laws and regulations and the articles of association (as amended from time to time) of the Target Company.

Furthermore, as advised by the PRC Legal Advisers, since the Exclusive Option Agreements, the Entrustment Agreements and the Powers of Attorney encompass dealing with the assets of Guangzhou Daide and the Target Company, the liquidator can seize their assets in a winding up situation for the benefit of Guangzhou Huohua's shareholders or creditors.

(4) Equity Pledge Agreements

The Equity Pledge Agreements comprise of Equity Pledge Agreement (Guangzhou Daide) and Equity Pledge Agreement (Target Company) which are of substantial similar terms.

Date:

Upon Completion

Parties:

For Equity Pledge Agreement (Guangzhou Daide):

(1) Guangzhou Huohua;

(2) PRC Equity Owners; and

(3) Guangzhou Daide.

For Equity Pledge Agreement (Target Company):

(1) Guangzhou Huohua;

(2) Guangzhou Daide; and

(3) Target Company.

Subject matter of the Equity Pledge Agreements

Pursuant to the Equity Pledge Agreements,

(i) Each of PRC Equity Owners agrees to pledge all of his/her respective equity interests in Guangzhou Daide to Guangzhou Huohua to secure performance of obligations of itself and Guangzhou Daide under the VIE Operating Agreements; and

(ii) Guangzhou Daide agrees to pledge all of its respective equity interests in the Target Company to Guangzhou Huohua to secure performance of obligations of itself and the Target Company under the VIE Operating Agreements.

Without the prior written consent of Guangzhou Huohua, each of PRC Equity Owners and Guangzhou Daide undertakes not to create or allow to create any new pledge or encumbrance over their respective interests in Guangzhou Daide and the Target Company.

(5) Loan Agreement

Date:

Upon Completion

Parties:

(1) Guangzhou Huohua; and

(2) Guangzhou Daide.

Subject matter of the Loan Agreement

Pursuant to the terms of the Loan Agreement, Guangzhou Huohua shall provide a non-interest bearing loan facility in the maximum principal amount of RMB450,000,000 (subject to any downward adjustment as contemplated by the Profit Guarantee Agreement) to Guangzhou Daide for the purpose of the acquisition of the entire equity interest of the Target Company. The loan will be provided to Guangzhou Daide by installment corresponding to Guangzhou Daide's payment schedule under the Equity Transfer Agreement.

The loan will be financed by internal resources of the Group and external debt financing.

The loan will be for a term of 20 years from the respective drawdown date of each installment of the loan. Guangzhou Daide shall repay the loan in full if Guangzhou Huohua gives prior notice to Guangzhou Daide demanding for repayment. Save as the demand notice given by Guangzhou Huohua, Guangzhou Daide shall have no right of early repayment.

(6) Spouses' Confirmation

Date:

Upon Completion

Party:

The spouse of Ms. Wang

Subject Matter:

The spouse of Ms. Wang will execute a spouse confirmation, pursuant to which he undertakes and agrees to, among others, (i) acknowledge that all the equity interests held by Ms. Wang in Guangzhou Daide belongs to herself and do not form part of matrimonial property, and any disposal of the equity interest held by Ms. Wang pursuant to the relevant VIE Operating Agreements does not require the consent of him; and (ii) any execution and amendment of any of the VIE Operating Agreements does not require the signing, confirmation and consent of him. As at the date of this announcement, Mr. Tang, the other PRC Equity Owner, does not have a spouse.

DISPUTE RESOLUTION

Each of the VIE Agreements contains a dispute resolution provision, which stipulates that in the event of any dispute relating to the interpretation and performance of the VIE Agreements, the parties shall negotiate in good faith to resolve such disputes. If the parties fail to reach an agreement on the resolution of such a dispute within 30 days, the relevant dispute may be submitted to the China International Economic and Trade Arbitration Commission (the "**CIETAC**") for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used in the arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. The VIE Agreements contain provisions to the effect that the arbitrators may award remedies over the shares and/or assets of PRC Equity Owners, Guangzhou Daide and the Target Company, injunctive reliefs (such as mandatory transfer of assets) and/or winding up of Guangzhou Daide and the Target Company. In addition, the VIE Agreements contain provisions to the effect that courts in the PRC, Hong Kong and the Cayman Islands are empowered to grant interim remedies in supporting of the arbitration pending the formation of an arbitral tribunal.

SUCCESSION

As advised by the PRC Legal Advisers, the provisions set out in the VIE Agreements are also binding on any successors of the Target Company, Guangzhou Daide and the PRC Equity Owners as if such successors were a signing party to the VIE Agreements. As such, any breach by the successors would be deemed to be a breach of the VIE Agreements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements. In case of a breach, Guangzhou Huohua can enforce its rights against the successors.

LIQUIDATION, BANKRUPTCY OR DEATH

Pursuant to the Exclusive Option Agreements, (i) in the event of a dissolution or liquidation of the Target Company, all the residual assets which are attributable to Guangzhou Daide shall be transferred to Guangzhou Huohua or its designated person(s) at the minimum purchase price permitted under PRC law, and Guangzhou Daide undertakes that it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer to Guangzhou Huohua or its designated person(s); (ii) in the events of liquidation/bankruptcy, restructurings, amalgamation, spinoffs of Guangzhou Daide, or the death or loss of capacity for civil conduct of the PRC Equity Owners or change of shareholding or any reasons causing changes to the share ownership of Guangzhou Daide, the successors of the PRC Equity Owners shall assume any and all rights and obligations of the PRC Equity Owners under the VIE Agreements; and (iii) the PRC Equity Owners must not assist or allow Guangzhou Daide to dispose any of its shareholdings unless Guangzhou Huohua consents in writing.

In addition, pursuant to the Exclusive Option Agreements, Guangzhou Huohua is entitled to exercise its option to purchase at any time, when permitted by the then applicable PRC laws, the equity interest in Guangzhou Daide, by itself or through its designated person(s) at the minimum purchase price permitted under the PRC law.

All equity interest owned by the PRC Equity Owners in Guangzhou Daide and all equity interest owned by Guangzhou Daide in the Target Company are also pledged to Guangzhou Huohua under the Equity Pledge Agreements to secure performance of obligations by the PRC Equity Owners, Guangzhou Daide and the Target Company under the VIE Agreements and in case of any breach of such obligations, Guangzhou Huohua is entitled to enforce such pledge. Accordingly, in the event of a dissolution or liquidation of Guangzhou Daide or the Target Company (as applicable), a liquidator may seize and deal with the assets which are attributable to the PRC Equity Owners or Guangzhou Daide (as applicable) based on the VIE Agreements for the benefit of Guangzhou Huohua's shareholders or creditors.

LOSS SHARING

As advised by the PRC Legal Advisers, none of the VIE Agreements provides that the Group is obligated to share the losses of Guangzhou Daide or the Target Company or provide financial support to Guangzhou Daide or the Target Company. Further, Guangzhou Daide and the Target Company are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Under the PRC laws and regulations, the Company, as the primary beneficiary of Guangzhou Daide and the

Target Group under the VIE Agreements, is not required to share the losses of Guangzhou Daide and the Target Company or provide financial support to Guangzhou Daide and the Target Company.

ARRANGEMENTS TO ADDRESS POTENTIAL CONFLICTS OF INTERESTS

Guangzhou Daide, PRC Equity Owners and the Target Company undertake that, during the period that the VIE Agreements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Guangzhou Huohua or Guangzhou Huohua's direct or indirect shareholders. If there is any conflict of interest, Guangzhou Huohua shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. Guangzhou Daide, PRC Equity Owners and the Target Company will unconditionally follow the instructions of Guangzhou Huohua to take any action to eliminate such conflict of interest.

INSURANCE

The Group did not purchase any insurance to cover the risks relating to the VIE Agreements.

OPERATIONS IN COMPLIANCE WITH THE VIE AGREEMENTS

The Group will adopt the following measures to ensure legal and regulatory compliance of the VIE Agreements:

(i) as part of the internal control measures, major issues arising from the implementation of the VIE Agreements with Guangzhou Daide, PRC Equity Owners and the Target Company will be regularly reviewed, at least on an annual basis, by the Board. The Board will determine, as part of its periodic review process, whether legal advisers and/or other professionals will be retained to assist the Group to deal with specific issues arising from the VIE Agreements;

(ii) matters relating to compliance and regulatory enquiries from government authorities (if any) will be discussed at regular meetings by the Board no less frequently than on a quarterly basis;

(iii) the relevant business units and operation divisions of the Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the VIE Agreements and other related matters;

(iv) Guangzhou Daide and PRC Equity Owners undertake they will not carry on, own or acquire any business which is in competition with or is likely to be in competition with the business carried on by the Target Group without the prior written consent of Guangzhou Huohua; and

(v) the Group will terminate the VIE Agreements as soon as the law allows the business to be operated without them.

As of the date of this announcement, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, the Directors are not aware of any factors that has led or would lead to any interference from or restrictions imposed by any PRC governing bodies on the Group's operating the businesses of the Target Group under the VIE Agreements.

EFFECT AND LEGALITY OF THE VIE AGREEMENTS

Investment activities in the PRC by foreign investors are primarily regulated by the Catalogue, which was promulgated and is amended from time to time jointly by the Ministry of Commerce of the PRC (the "**MOFCOM**") and the National Development and Reform Commission of the PRC (the "**NDRC**"). The Catalogue divides industries into four categories in terms of foreign investment, including "encourage", "restricted" and "prohibited", and all industries not listed under any of these categories are deemed to be "permitted". Pursuant to the Catalogue, the business that the Target Group currently operates falls into the category of "prohibited". Therefore, as Guangzhou Huohua is a foreign-owned company, it is not allowed to hold any equity interests of the Target Company under the PRC laws.

Therefore, in order to comply with applicable PRC laws and regulations, Guangzhou Huohua, Guangzhou Daide, PRC Equity Owners and the Target Company entered into the VIE Agreements to enable the financial results, the entire economic benefits and the risks of the businesses of Guangzhou Daide and the Target Company to flow into Guangzhou Huohua and to enable Guangzhou Huohua to gain control over the Target Company via Guangzhou Daide.

The PRC Legal Advisers, after taking reasonable actions and steps to reach its legal conclusions, is of the following legal opinion:

- the VIE Agreements are narrowly tailored to achieve the business purposes of the Company and minimise the potential for conflict with relevant PRC laws and regulations;

- each of Guangzhou Huohua, Guangzhou Daide and the members of the Target Group are duly established and validly existing under the PRC laws, and has obtained or completed all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC laws, regulations and rules;

- each of the VIE Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and will be enforceable under applicable PRC laws and regulations except that (a) the CIETAC has no power to grant injunctive relief, nor will it be able to order the winding up of Guangzhou Daide or the Target Company pursuant to the current PRC laws; and (b) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognised or enforceable in the PRC;

- the VIE Agreements do not, individually or collectively, violate the mandatory provisions of the PRC Contract Law, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations and are not deemed as "concealing illegal intentions with a lawful form" resulting in the invalidity of the VIE Agreements;

- none of the VIE Agreements violates any provisions of the existing articles of association of each of Guangzhou Huohua, Guangzhou Daide and members of the Target Group; and

- the execution, effectiveness and enforceability of the VIE Agreements do not require any approvals from any PRC governmental authority, except that (1) each of the Equity Pledge Agreements is subject to registration requirements with the relevant administration for industry and commerce; (2) the exercising of the exclusive options by Guangzhou Huohua according to the Exclusive Option Agreements shall be subject to the then effective PRC laws and regulations and relevant approving procedures (if applicable); and (3) if the enforcement of the VIE Agreements is subject to the enforcement of the ruling by the arbitrator and/or overseas courts outside PRC, the claimant shall enforce the ruling via PRC courts with jurisdiction.

BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, the Board is of the view that the VIE Agreements are specifically structured because they are only used to address the foreign ownership restriction under the Catalogue. The VIE Agreements are also specifically structured to achieve the business purposes of the Company and minimise the potential for conflict with relevant PRC laws and regulations. By entering into the VIE Agreements, the Company, through Guangzhou Huohua, is able to control and consolidate Guangzhou Daide and the Target Group and to obtain the economic benefits of Guangzhou Daide and the Target Group. The VIE Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

There is no assurance that the VIE Contracts could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Contracts do not comply with applicable regulations

Background of the Draft Foreign Investment Law

On January 19, 2015, the MOFCOM circulated Foreign Investment Law of the PRC (Draft for Comment) (《中華人民共和國外國投資法(草案徵求意見稿)》) and the Explanation on the draft PRC Foreign Investment Law (《關於〈中華人民共和國外國投資法(草案徵求意見稿)〉的説明》) (collectively the "**Draft Law**"), which proposed changes to the PRC foreign investment legal regime and the treatment of the VIE structures, including contractual arrangement such as the VIE Agreements. The Draft Law, if finally adopted, may have a material impact on the PRC foreign investment legal regime.

There is no concrete guidance on how the existing VIE structures should be treated in the Draft Law. For investments using VIE structures, such as the VIE Agreements which exist before the Draft Law is adopted and becomes law, if the underlying businesses are still being categorized as prohibited or restricted foreign investment businesses after the Draft Law is adopted and becomes law, there are three suggested available alternatives (the "**Suggested Alternatives**") in dealing with existing VIE structures pursuant to the Draft Law:

(a) **the reporting regime:** the foreign investment enterprise under the VIE arrangement shall report to the foreign investment authority under the State Council of the PRC that it is effectively controlled by PRC investors. After such reporting, the VIE arrangement can be retained and the relevant parties can continue the operation;

(b) **the recognition regime:** the foreign investment enterprise under the VIE arrangement shall file an application with the foreign investment authority under the State Council of the PRC for being recognised as a party under the effective control of PRC investors. If the foreign investment authority recognizes it a being effectively controlled by PRC investors, the VIE arrangement can be retained and the relevant parties can continue the operation; or

(c) **the entry permit regime:** the foreign investment enterprise under the VIE arrangement shall apply for entry permit from the foreign investment authority under the State Council of the PRC, and the foreign investment authority and relevant authorities will consider factors including the actual controller of the foreign investment enterprise and make a decision on how the relevant VIE arrangement should be handled.

Among other things, the Draft Law purports to introduce the principle of "actual control" in determining whether a company is considered as a foreign invested enterprises or a foreign invested entity ("**FIE**"). For this purpose, "control" is defined in Article 18 of the Draft Law to cover any of the following categories: (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity; (ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but: (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

For the purpose of the Draft Law, "actual controller" refers to a natural person or an enterprise that directly or indirectly controls a foreign investor or an FIE.

As defined in the Draft Law, "PRC investors" refer to the following subjects: (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies there under; or (iii) domestic enterprises under the control of the subjects as mentioned in the preceding two categories. Meanwhile, "foreign investors" refer to the following subjects making investments within the territory of the PRC: (i) natural persons without the PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the

PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; or (iv) international organisations. Domestic enterprises under the control of foreign investors as mentioned in the preceding sentence are deemed as foreign investors.

The Potential Impact of the Draft Law on the Company

Assuming the Draft Law is adopted and becomes law and one of the Suggested Alternatives is adopted by the PRC government, in the event that the Target Group's business still falls within the restricted or prohibited lists of the final foreign investment law (the "**FIL**"), the Group will have to:

(a) report to the competent authorities if the reporting regime is finally adopted. The existing VIE structure will be permitted to continue following reporting to the MOFCOM that the VIE structure is ultimately controlled by a PRC investor. However, the Draft Law has not mentioned how to deal with the existing VIE structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the reporting regime;

(b) obtain recognition from the competent authorities if the recognition regime is finally adopted. The existing VIE structure will be permitted to continue following recognition, on the application of the investor, by the MOFCOM of the VIE structure being ultimately controlled by a PRC investor. However, the Draft Law has not mentioned how to deal with the existing VIE structure ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the recognition regime; or

(c) obtain entry permit from the competent authorities if the entry permit regime is finally adopted. The existing VIE structure will be permitted to continue following the entry permit is granted by the MOFCOM after taking into account a number of considerations including, without limitation, the identity (whether PRC investor or foreign investor) of the ultimate control person.

There is no guarantee that the Group will be able to obtain such recognition or entry permit. If the Group is unable to obtain such recognition or entry permit, the Group may be required to terminate the VIE Agreements and dispose of the business carried out by the Target Group. As a result, the Group will lose control over Guangzhou Daide and the Target Group, which could negatively affect the Group's ability to conduct its business. In the event that the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

According to the PRC Legal Advisers, the Draft Law has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law. If the PRC government finds that the VIE Agreements do not comply with PRC laws and regulations, or if these laws and regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish its interests received through the VIE Agreements.

Measures adopted by the Company to mitigate against any potential risk arising from the FIL

The Draft Law was circulated in January 2015 for comments and there has been no indication as to when it will be promulgated and come into effect and it does not contain a concrete guidance to deal with the existing VIE structures. Also, the Draft Law is currently in draft form only and remains subject to changes. As such, as advised by the PRC Legal Advisers, the Board will closely monitor the development of the Draft Law with the help of the Company's inhouse counsel in the PRC and if there is any development, they will discuss with the Company's PRC legal advisers in order to assess any possible impact arising from the change of the Draft Law or the FIL on the VIE Agreements and the business operation of the Group. In case there would be material and adverse effect on the Group or the business of the Target Group arising from the Draft Law or the FIL, the Company will pursuant to Part XIVA of the SFO, timely announce (i) any updates or material changes to the Draft Law; (ii) in the event that the FIL has been promulgated, a clear description and analysis of the law, specific measures taken by the Company to be in compliance with the FIL with the support of a PRC legal opinion; and (iii) any material impact of the FIL on the Company's operations and financial position.

However, since the Draft Law has not been finalized and requirements under the FIL may be difference from those set out in the Draft Law, the above-mentioned measures may not be effective.

Current Status of promulgation of the Draft Law

According to the PRC Legal Advisers, the Draft Law was circulated for comment and has not been legislated by the relevant authority. As the Draft Law is currently in draft form only, it is uncertain whether or when the Draft Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. MOFCOM and the State Council of the PRC may amend the Draft Law in light of any feedbacks or comments at the drafting stage. It may be further amended after being tabled if comments are raised by the Standing Committee of the National People's Congress or the National People's Congress. Furthermore, MOFCOM has not issued any definite rule or regulation to govern existing contractual arrangements.

The VIE Agreements may not be as effective in providing operational control as direct ownership and Guangzhou Daide or its shareholders may fail to perform its obligations under the VIE Agreements.

The Group will not have equity ownership interests in the Target Company. The VIE Agreements may not be as effective as direct ownership in providing the Group with control over the Target Company. Direct ownership would allow the Group, for example, to directly or indirectly exercise its rights as a shareholder to effect changes in the board of directors of the Target Company, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level.

If the Target Company or its shareholders fail to perform their respective obligations under the VIE Agreements, the Group may not obtain the full economic benefits of the Target Group. In addition, in that case the Group may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws which may be limited. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the shareholder(s) of the Target Company or Guangzhou Daide refuse to transfer their equity interest in the Target Company or Guangzhou Daide to Guangzhou Huohua or its designee when Guangzhou Huohua exercises the option pursuant to the VIE Agreements, or if it were otherwise to act in bad faith toward the Group, the Group might have to take legal actions to compel it to perform its respective contractual obligations. Furthermore, uncertainties of the PRC legal system could impede the Group's ability to exercise the option to acquire ownership and subject us to substantial costs.

The Group may lose control over the Target Company and may not enjoy the full economic benefits of the Target Group if the Target Company declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Guangzhou Daide holds 100% equity interest in the Target Company. The VIE Agreements contain terms that specifically provide that the Target Company or Guangzhou Daide may not be voluntarily liquidated without the written consent of Guangzhou Huohua. However, if the shareholders of the Target Company or Guangzhou Daide breach this obligation and voluntarily liquidate the Target Company or Guangzhou Daide or if the Target Company or Guangzhou Daide declares bankruptcy, all or part of its assets may become subject to liens or rights of third-party creditors and the Group may be unable to continue control the Target Company or Guangzhou Daide and may not enjoy the economic benefits of the Target Group, which could adversely affect our business, financial condition and results of operations.

The VIE Agreements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce the Group's net income.

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities and additional taxes and interest may be imposed. The Group would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the VIE Agreements among Guangzhou Huohua, PRC Equity Owners, Guangzhou Daide and the Target Company (as applicable) were not conducted on an arm's length basis as the PRC tax authorities have the authority to make special tax adjustments to the tax positions of Guangzhou Huohua, Guangzhou Daide and the Target Company. Moreover, in accordance with the Implementation Measures of Special Tax Adjustments (Trial Version) (Guo Shui Fa 2009 No. 2), additional corporate income tax payable as a result of a special tax adjustment made by the PRC tax authorities on or after 1 January 2008 shall be subject to an interest levy calculated on a daily basis. The Group's net income may be adversely affected if Guangzhou Huohua, Guangzhou Daide and the Target Company's tax liabilities increase or if it is subject to late payment fees or other penalties.

The shareholder(s) of Guangzhou Daide may have conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial conditions.

The Group's control over Guangzhou Daide and the Target Company held by Guangzhou Daide is based upon the VIE Agreements with, among others, Guangzhou Daide and its shareholders. The shareholders of Guangzhou Daide may potentially have a conflict of interest with the Group, and they may breach their agreements with the Group or if they otherwise act in bad faith, if they believe the VIE Agreements would adversely affect their own interests. There is no assurance that when conflicts of interest arise between the Group and the shareholders of Guangzhou Daide, the shareholders of Guangzhou Daide will act completely in the Group's interests or that the conflicts of interest will be resolved in the Group's favor. If the shareholders of Guangzhou Daide do not act completely in the Group's interests or the conflicts of interest between the Group and them are not resolved in the Group's favor, the Group's business and financial condition may be materially and adversely affected.

In addition, the shareholders of Guangzhou Daide may breach or cause Guangzhou Daide or the Target Company to breach the VIE Agreements. If the Target Company, Guangzhou Daide or its shareholders breach their agreements with the Group or otherwise have disputes with the Group, the Group may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly distract the management's attention, adversely affect the Group's ability to control Guangzhou Daide and the Target Company and otherwise result in negative publicity and adversely affect the reputation of the Group. There is no assurance that the outcome of any such dispute or proceeding will be in the Group's favor.

Certain terms of the VIE Agreements may not be enforceable under PRC law and enforcement of certain of the Group's rights under the VIE Agreements is subject to regulatory approval.

All the agreements which constitute the VIE Agreements are governed by PRC laws and all disputes will be submitted for arbitration, whose ruling will be final and binding. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit the Group's ability to enforce the VIE Agreements. In the event that the Group is unable to enforce the VIE Agreements, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over Guangzhou Daide and the Target Company.

The VIE Agreements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Guangzhou Daide and the Target Company, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. Therefore, in the event of breach of any of the VIE Agreements by the Target Company, Guangzhou Daide or their shareholder(s), and if the Group is unable to enforce the VIE Agreements, the Group may not be able to exert control over Guangzhou Daide and the Target Company, which could negatively affect our ability to conduct our business.

Pursuant to the VIE Agreements, Guangzhou Huohua (or its designee) has the exclusive right to purchase all or any part of the equity interests in Guangzhou Daide and the Target Company from PRC Equity Owners and Guangzhou Daide for the minimum price permitted under the then applicable PRC laws. The equity interest transfer is subject to the approval from or filings with the MOFCOM and/or their local competent branches, which is outside of the Group's control.

The Group does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the operation of the Guangzhou Daide or the Target Company, the financial results and financial position of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations.

GENERAL INFORMATION OF GUANGZHOU DAIDE AND THE TARGET GROUP

Information on Guangzhou Daide and PRC Equity Owners

Guangzhou Daide is a private company established in the PRC on 9 March 2018 with limited liability and the entire equity interest of it is owned as to 1% by Ms. Wang and 99% by Mr. Tang. Guangzhou Daide is principally engaged in investments holding. Guangzhou Daide will own the entire equity interest of the Target Company upon Completion.

The PRC Equity Owners, namely Ms. Wang and Mr. Tang are residents in Beijing, PRC. They were introduced to the Target Group by Mr. Zhang Liang Johnson, the chairman and the controlling shareholder of the Company. Ms. Wang is the legal representative and director of Guangzhou Daide. She is engaged in the culture and artistic business in the PRC and has many years of experience in the entertainment industry management. Mr. Tang is engaged in the beverage industry in the PRC and possesses extensive knowledge of corporate management.

Information on the Target Group

The Target Company is a private company established in the PRC on 26 October 2016 with limited liability and the entire equity interest of it is owned by the Vendors. The Target Company is principally engaged in the production of TV drama.

The Target Company owns the entire equity interest of the Target Subsidiary. The Target Subsidiary is principally engaged in radio and television program production. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Target Company and the Target Subsidiary are Independent Third Parties.

According to the unaudited financial statements of the Target Group prepared in accordance with HKFRSs, total assets of the Target Group as at 31 December 2017 were approximately RMB83.7 million; the revenue of the Target Group for the period from 26 October 2016 (date of incorporation) to 31 December 2017 was approximately RMB74.9 million; the profit before taxation of the Target Group for the period from 26 October 2016 (date of incorporation) to 31 December 2017 was approximately RMB20.7 million; and the profit after taxation of the Target Group for the period from 26 October 2016 (date of incorporation) to 31 December 2017 was approximately RMB20.7 million.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Group is principally engaged in (i) film and TV series production, distribution and licensing of film rights, (ii) film exhibitions, (iii) post production, and (iv) advertising, marketing and publication. As disclosed in the 2016/2017 annual report of the Company, the Group will continue to identify quality investment opportunities in film and TV series projects worldwide, not only to strengthen the Group's revenue base, but also to enrich its knowledge and experience for tapping into the global market.

Taking into account, among other things, (1) the entering into of the VIE Agreements will enable the Group to obtain the drama production licenses held by the Target Group; (2) there is market potential of the PRC showbiz industry; (3) the entering into the VIE Agreements will enable the Group to obtain the intellectual property rights of drama held by the Target Group; (4) the entering into the VIE Agreements will enable the Group to leverage the human capital of the Target Group to facilitate its growth in the PRC showbiz industry; and (5) in view of the Profit Guarantee Agreement, the Target Group may contribute positively to the Group's revenue and cash flow, the Directors consider that the terms of the VIE Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Acquisition Agreement exceed 25% and all the applicable percentage ratios are less than 100%, the entering into of the VIE Acquisition Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

To the best of the Directors' knowledge, information and belief, and after having made all reasonable enquiries, no Shareholder (including Nice Rich) is required to abstain from voting if the Company were to convene a general meeting for approving the entering into of the VIE Acquisition Agreement and the transactions contemplated thereunder. As at the date of this announcement, Nice Rich, holding approximately 70.75% of the issued share capital of the Company, has provided a written Shareholder's approval on the entering into the VIE

Acquisition Agreement and the transactions contemplated thereunder. As such, no general meeting will be convened for approving the entering into of the VIE Agreements and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

Since the Directors expect that additional time is required for the preparation of the relevant information to be included in the circular, which will contain, among other things, details of the VIE structure and other information as required under the Listing Rules, the circular is expected to be despatched to the Shareholders on or before 30 June 2018.

Shareholders and potential investors of the Company should note that Completion is subject to the fulfillment or waiver (as the case may be) of the relevant Conditions, therefore Completion may or may not proceed. Accordingly, the transactions contemplated under the VIE Agreements may or may not materialise. Shareholders and potential investors of the Company are urged to exercise caution when dealing in the securities of the Company.

DEFINITIONS:

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings.

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audited Profit"	Net profit after taxation (excluding gain or loss arising from valuations, mergers and acquisitions and activities other than ordinary course of business) on the annual consolidated financial statements of the Target Group to be prepared in accordance with Hong Kong Financial Reporting Standards and audited by the auditor of the Company
"Board"	the board of Directors of the Company
"Company"	Transmit Entertainment Limited (formerly known as Pegasus Entertainment Holdings Limited), an exempted company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Stock Exchange
"Completion"	completion of the transactions contemplated under the VIE Acquisition Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the aggregate consideration for the entire equity interests in the Target Company payable by Guangzhou Daide to the Vendors pursuant to the Equity Transfer Agreement
"Director(s)"	the director(s) of the Company
"Entrustment Agreements and Powers of Attorney"	the entrustment agreements and powers of attorney details of which are set out in "The VIE Agreements — Details of the VIE Agreements" in this announcement

“Equity Pledge Agreements”	the equity pledge agreement details of which are set out in “The VIE Agreements — Details of the VIE Agreements” in this announcement
“Equity Transfer Agreement”	the equity transfer agreement details of which are set out in “The VIE Agreements — Details of the VIE Agreements” in this announcement
“Exclusive Operation Service Agreement”	the exclusive operation service agreement details of which are set out in “The VIE Agreements — Details of the VIE Agreements” in this announcement
“Exclusive Option Agreements”	the exclusive option agreements details of which are set out in “The VIE Agreements — Details of the VIE Agreements” in this announcement
“Group”	the Company and its subsidiaries
“Guangzhou Daide”	廣州戴德管理諮詢有限公司 (Guangzhou Daide Management Consultancy Company Limited*), a company established in the PRC with limited liability, which is owned as to 1% by Ms. Wang and 99% by Mr. Tang
“Guangzhou Huohua”	廣州火花投資有限公司 (Guangzhou Huohua Investment Company Limited*), a company established in the PRC with limited liability, a wholly owned subsidiary of the Company
“Hangzhou Yikai”	杭州毅凱鯨誠投資合夥企業 (有限合夥) (Hangzhou Yikai Jing Cheng Investment Management Partnership (Limited Partnership)*), a limited partnership established in the PRC
“HK$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Transmit”	Hong Kong Transmit Entertainment Limited a company incorporated in Hong Kong with limited liability, a wholly owned subsidiary of the Company
“Hope Sound”	Hope Sound Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly owned subsidiary of the Company
“Huzhou Shengyi”	湖州盛毅投資管理合夥企業 (有限合夥) (Huzhou Shengyi Investment Management Partnership (Limited Partnership)*), a limited partnership established in the PRC

"Huzhou Yiqianyan"	湖州毅前沿投資管理合夥企業 (有限合夥) (Huzhou Yiqianyan Investment Management Partnership (Limited Partnership)*), a limited partnership established in the PRC
"Independent Third party(ies)"	the independent third party(ies) who is/are, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, independent of the Company and the connected person(s) (as defined in the Listing Rules) of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Loan Agreement"	the loan agreement details of which are set out in "The VIE Agreements — Details of the VIE Agreements" in this announcement
"Long Stop Date"	31 December 2018 or such other date as the parties to the VIE Acquisition Agreement or Equity Transfer Agreement (as the case may be) may agree in writing
"Mr. Tang"	唐繼敏 (Tang Jimin*), one of the PRC Equity Owners
"Ms. Wang"	王青陽 (Wang Qinyang*), one of the PRC Equity Owners
"Nice Rich"	Nice Rich Group Limited, a company incorporated in the British Virgin Islands with limited liability, the controlling shareholder of the Company
"Ningbo Meishan"	寧波梅山保税港區合海觀鼎投資管理合夥企業 (有限合夥) (Ningbo Meishan Baoshuigangqu He Hai Guan Ding Investment Management partnership (limited partnership)*), a limited partnership established in the PRC
"PRC"	the People's Republic of China, for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Equity Owners"	Mr. Tang and Ms. Wang, who in aggregate own the entire equity interest in Guangzhou Daide
"PRC Legal Advisers"	Jingtian & Gongcheng, legal advisers to the Company as to PRC laws
"Profit Guarantee Agreement"	the profit guarantee agreement details of which are set out in "The VIE Agreements — Details of the VIE Agreements" in this announcement
"RMB"	Renminbi, the lawful currency of the PRC

"SFO"	Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Yuantong"	上海緣通文化發展事務所 (Shanghai Yuantong Culture Development Firm*), a sole proprietorship enterprise established in the PRC
"Shares"	ordinary share(s) having a par value of HK$0.0025 each in the capital of the Company
"Shareholders"	the holders of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	霍爾果斯厚海文化傳媒有限公司 (Khorgas Houhai Culture Media Company Limited*), a company established in the PRC with limited liability
"Target Group"	the Target Company and the Target Subsidiary
"Target Subsidiary"	北京聚海文化傳媒有限公司 (Beijing Juhai Culture Media Company Limited*), a company established in the PRC with limited liability, a wholly-owned subsidiary of the Target Company
"Tianjin Juhai"	天津聚海文化傳媒中心 (有限合夥) (Tianjin Juhai Culture Media Centre (limited partnership)*), a limited partnership established in the PRC
"Vendors"	collectively the vendors under the Equity Transfer Agreement, namely Tianjin Juhai, Xizang Juanqifeng, Ningbo Meishan, Huzhou Yiqianyan, Huzhou Shengyi, Hangzhou Yikai, Shanghai Yuantong
"VIE"	Variable Interest Entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights
"VIE Acquisition Agreement"	the VIE acquisition agreement details of which are set out in "The VIE Agreements — Details of the VIE Agreements" in this announcement
"VIE Agreements"	collectively the VIE Acquisition Agreement, the Equity Transfer Agreement and the VIE Operating Agreements
"VIE Operating Agreements"	collectively the Exclusive Operation Service Agreement, the Exclusive Option Agreements, the Entrustment Agreements and Powers of Attorney, the Equity Pledge Agreements and the Loan Agreement

"Xizang Juanqifeng"	西藏卷旗風文化傳媒有限公司 (Xizang Juanqifeng Culture Media Company Limited*), a company established in the PRC with limited liability
"%"	per cent

By order of the Board
Transmit Entertainment Limited
Zhang Liang, Johnson
Chairman

Hong Kong, 27 May 2018

As at the date of this announcement, the Board comprises (i) three executive Directors, namely Mr. ZHANG Liang Johnson (Chairman); Mr. LEE Hin Kwong Patrick and Mr. WONG Pak Ming; and (ii) three independent non-executive Directors, namely Mr. WANG Bo, Mr. XIANG Feng and Mr. CHANG Eric Jackson.

The English transliteration of the Chinese name(s) in this announcement, where indicated with "", is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

Unless otherwise stated, translation of RMB into HK$ is based on the approximate exchange rate of RMB1.00 to HK$1.23 for information purpose only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.