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PICO FAR EAST HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 752)

ANNOUNCEMENT DISCLOSEABLE TRANSACTION AND DEEMED DISPOSAL

THE ACQUISITION AND COMPLETION

On 4 March 2019 (after trading hours), the Buyer and the Parent (both are the indirect subsidiaries of the Company), the Seller and the Target Company entered into the Purchase Agreement pursuant to which the Buyer agreed to purchase and the Seller agreed to dispose of the Membership Interests for a maximum Purchase Price of US\$31,000,000 (subject to the adjustments as described under the paragraph headed "Adjustments to Consideration"), which shall be satisfied in the following manner:

- (a) as to US\$13,000,000, less the initial cash reduction amount (if applicable), shall be paid by the Buyer to the Seller on the Completion Date;
- (b) 4.6 million of Class A-2 Units on the basis of US\$1 per Class A-2 Unit as of the Completion Date for a value of US\$4,600,000, to be issued at Completion;
- (c) any Post-Completion Adjustment (which may be a negative number). If the Post-Completion Adjustment is a positive number, the Buyer shall pay to the Seller an amount in cash equal to the Post-Completion Adjustment. If the Post-Completion Adjustment is a negative number, the Seller shall pay to the Buyer an amount in cash equal to the Post-Completion Adjustment;
- (d) any Holdback Consideration payable to the Seller, up to a maximum of US\$6,000,000;

- (e) any Earn-Out Consideration payable to the Seller in cash or Class A-2 Units as the Seller elects; and
- (f) any New Business Line Consideration payable to the Seller, up to a maximum of US\$1,000,000 in cash.

In addition to the above amounts of Purchase Price, which totals a maximum of US\$30,600,000, the Parent is issuing 400,000 of its Class A-2 Performance Shares in aggregate, i.e., US\$400,000 in value, to the Participants who had previously entered into agreements with the Target Company that entitled the Participants to receive a portion of the Purchase Price.

The Completion of the Acquisition took place on the same day.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Buyer is a wholly-owned subsidiary of the Parent, which in turn is a non wholly-owned subsidiary of the Company. Upon the allotment and issue of 4,600,000 Class A-2 Units and 400,000 Class A-2 Performance Shares on Completion, the Group's share of distribution entitlement of the Parent will be diluted from approximately 61.35% to approximately 51.43%, and upon further allotment and issue of Class A-2 Units to satisfy the Earn-Out Consideration with the maximum amount of US\$12,000,000 (assuming the Holdback Consideration did not materialize and the Post-Completion Adjustment amount is US\$0) but assuming no further subscriptions by Pico USA, Inc. of Class A-1 Units in cash to fund other earn-outs in previous acquisitions and the Convertible Loan, the Group's share of distribution entitlement of the Parent will become 28.82%. The aforesaid allotments constitute a deemed disposal of interest in the Parent under the Listing Rules.

Further, after the Completion, taking into account the Group's continued right to control the board of directors of the Parent, the Parent will continue to be an indirect non wholly-owned subsidiary of the Company and the financial results of the Parent will continue to be consolidated into the financial statements of the Group.

Pursuant to Rule 14.24 of the Listing Rules, as the Acquisition and the Deemed Disposal constitute one transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the acquisition or disposal, and subject to the reporting, disclosure and/or shareholder approval requirements applicable to such classification.

As none of the percentage ratios (as defined under the Listing Rules) in respect of the Deemed Disposal exceeds 5% and one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition under the Purchase Agreement is more than 5% but less than 25%, the transaction under the Acquisition is classified as a discloseable transaction under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but are exempted from shareholders' approval requirement under the Listing Rules.

BACKGROUND

On 4 March 2019 (after trading hours), the Buyer and the Parent (both are indirect subsidiaries of the Company), the Seller and the Target Company entered into the Purchase Agreement pursuant to which the Buyer agreed to purchase and the Seller agreed to dispose of the Membership Interests.

THE PURCHASE AGREEMENT

The principal terms of the Purchase Agreement are as follows:

Date: 4 March 2019 (after trading hours)

Parties

Parent: MTM Choice Holdings LLC, an indirect subsidiary of the Company

Buyer: MTM Choice LLC, a wholly-owned subsidiary of MTM Choice Holdings LLC

Target Company: Local Projects, LLC

Seller: Mr. Jacob Barton

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Seller is an Independent Third Party.

Subject matter of the Acquisition

The Membership Interests acquired represents all of the issued and outstanding membership interests in the Target Company, which, immediately prior to the Completion, were owned as to 100% by the Seller.

Consideration

The purchase price for the Acquisition (the "**Purchase Price**") consists of the following:

- (a) as to US\$13,000,000, less the initial cash reduction amount (if applicable), shall be paid by the Buyer to the Seller on the Completion Date (the "**Initial Cash Consideration**");
- (b) 4.6 million of Class A-2 Units on the basis of US\$1 per Class A-2 Unit as of the Completion Date for a value of US\$4,600,000, to be issued at Completion (the "**Initial Equity Consideration**") (item (a) and item (b) are collectively referred to as the "**Initial Consideration**");

- (c) any Post-Completion Adjustment (which may be a negative number). If the Post-Completion Adjustment is a positive number, the Buyer shall pay to the Seller an amount in cash equal to the Post-Completion Adjustment. If the Post-Completion Adjustment is a negative number, the Seller shall pay to the Buyer an amount in cash equal to the Post-Completion Adjustment;
- (d) any holdback consideration payable to the Seller, up to a maximum of US\$6,000,000 (the “**Holdback Consideration**”);
- (e) any earn-out consideration payable to the Seller in cash or Class A-2 Units as the Seller elects (the “**Earn-Out Consideration**”); and
- (f) any new business line consideration payable to the Seller, up to a maximum of US\$1,000,000 in cash (the “**New Business Line Consideration**”).

In addition to the above amounts of Purchase Price, which totals a maximum of US\$30,600,000 payable to the Seller, the Parent is issuing 400,000 of its Class A-2 Performance Shares, i.e., US\$400,000 in value, to the Participants who had previously entered into agreements with the Target Company that entitled the Participants to receive a portion of the Purchase Price.

Notwithstanding the above, the Parties have agreed that the aggregate amount payable by the Buyer and Parent as Purchase Price will not exceed US\$31,000,000. For so long as the 400,000 Class A-2 Performance Shares are outstanding, the maximum amount of Purchase Price payable to the Seller will not exceed US\$30,600,000.

Additional Cash Contribution

Other than the Purchase Price for the Acquisition, the Parent or the Buyer shall make, or be deemed to make, cash contributions to the Target Company in an aggregate amount of US\$3,000,000 (the “**Investment Amount**”) towards funding the Target Company’s strategic objectives in order to achieve certain goals and milestones set forth in the Purchase Agreement.

The Investment Amount will not be included in the Purchase Price and the Investment Amount may be funded directly by the Buyer (or the Parent) through cash contributions, or may be funded through application of the Target Company’s net income. Expenditures by the Target Company of portions of the Investment Amount (and related expenditures funded through application of net income of the Target Company) may, if the Buyer agrees, result in the Target Company being provided with special adjustments to EBITDA for purposes of calculation of Holdback Consideration or Earn-Out Consideration.

In case the Buyer fails to fund any portion of the Investment Amount, the eight times (8x) multiplier factor under the Revised Valuation (as defined under the subsection headed “Earn-Out Consideration”) can be increased up to a maximum of nine times (9x). But despite such increase in the multiplier factor, the maximum of the Purchase Price of US\$31,000,000 will not be affected.

In summary, the maximum Purchase Price of US\$31,000,000 is comprised of the following cash, Class A-2 Units and Class A-2 Performance Shares payable to the Seller and the Participants:

Component of consideration	Amount payable in cash	Amount payable in Class A-2 Units/ Class A-2 Performance Shares*
1. Initial Consideration	US\$13,000,000, subject to the initial cash reduction amount and Post-Completion Adjustment	US\$4,600,000/ US\$400,000
2. Holdback Consideration	Up to US\$6,000,000	Nil
3. New Business Line Consideration	Up to US\$1,000,000	Nil
4. Earn-Out Consideration**	Up to the amount equal to US\$30,000,000 less amounts paid in items 1 and 2 above (excluding the Investment Amount)	
Grand total	Up to US\$31,000,000	

* *Separate from the above amounts of Purchase Price payable to the Seller, which totals a maximum of US\$30,600,000, the Parent is issuing 400,000 of its Class A-2 Performance Shares, i.e., US\$400,000 in value in aggregate, to the Participants who had previously entered into agreements with the Target Company that entitled the Participants to receive a portion of the Purchase Price. That is, the holders of the Class A-2 Performance Shares will be entitled to receive payments under items (1) to (4) and to cash distribution on the same basis as if they were holding an equivalent number of Class A-2 Units, but they will not be entitled to receive any Class A-2 Units or other equity securities of MTM Choice Holdings, the Buyer or their respective Affiliates. Any cash payments will cause the payments to the Seller to be reduced on a dollar-for-dollar basis. In the event that any of the Participants ceases to be an employee of the Target Company prior to the payment date of any of the Holdback Consideration, Earn-Out Consideration or New Business Line Consideration, as applicable, the Class A-2 Performance Shares held by that Participant will be forfeited and such Participant shall have no right to receive such payment or any further payments thereafter and such payments will revert to the Seller.*

** *At the option of the Seller, the consideration may be settled in form of cash or issuance of Class A-2 Units.*

The Parent will also cause to be settled the Company Expenses out from the Initial Cash Consideration.

The maximum consideration of US\$31,000,000 was determined after arm's length negotiations between the parties after taking into account the Target Company's business model, financial and operating performance including its latest financial position as shown in its management accounts as at 31 December 2018, and future prospects.

ADJUSTMENTS TO CONSIDERATION

Post-Completion Adjustment

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

Post-Completion Adjustment = closing working capital (being Current Assets minus Current Liabilities, subject to certain accrual and other adjustments) of the Target Company as of the Completion Date — the target working capital of the Target Company

The Post-Completion Adjustment is estimated to be an excess of approximately US\$755,000 and, if materialized, shall be paid by the Buyer to the Seller in the same amount in cash.

Holdback Consideration

The Holdback Consideration, up to a maximum of US\$6,000,000 in cash, will be determined as follows:

Actual EBITDA of the Target Company achieved for 2019/20 Fiscal Year and/or 2020/21 Fiscal Year	Cash
Equal to or greater than US\$2,500,000	US\$3,000,000
Equal to or greater than US\$1,750,000 but less than US\$2,500,000	$\text{US\$3,000,000} \times \frac{\text{Target Company's EBITDA for the relevant fiscal year} - \text{US\$1,750,000}}{\text{US\$750,000}}$
Less than US\$1,750,000	Nil

In the event that the Holdback Consideration does not materialize and the Post-Completion Adjustment amount is US\$0, the Earn-Out Consideration may increase by such maximum amount US\$6,000,000.

Earn-Out Consideration

The Earn-Out Consideration will be determined according to the following formula and payable to the Seller in cash or Class A-2 Units as the Seller elects. Capitalized terms in relation to the calculation of the Earn-Out Consideration follow the definitions below.

For the purpose of calculating the Earn-Out Consideration:

The Earn-Out Consideration = the Revised Valuation — the total of the Prior Consideration

“**Average EBITDA**” means the average of the Target Company’s EBITDA for the Earn-Out Years, as determined in accordance with the Target Company’s audited financial statements for each relevant fiscal year.

“**Earn-Out Year**” means every twelve (12) month period commencing from the Completion Date and, thereafter, up to three years, or, if the Seller so elects, an additional one year.

“**Prior Consideration**” means the aggregate amounts of Purchase Price paid or payable to the Seller (except for New Business Line Consideration (if any)).

“Revised Valuation” means an amount equal to eight times (8x) the Average EBITDA, subject to the adjustment stated in the subsection headed “Additional Cash Contribution” above), but not to exceed US\$30,000,000.

New Business Line Consideration

The Seller shall be entitled to receive a maximum cash payment of US\$1,000,000 if, during the final Earn-Out Year, the Target Company generates at least US\$3,000,000 of net revenue from a new business line the commercial criteria of which being set and agreed between the Parties.

The New Business Line Consideration may or may not materialize.

FINANCING OF THE ACQUISITION

The Initial Cash Consideration will be funded through a convertible loan by Pico USA, Inc. to the Parent, with the option for Pico USA, Inc. to convert the same into Class A-1 Units (the **“Convertible Loan”**). The cash portion of the Purchase Price (including the Post-Completion Adjustment, Holdback Consideration, Earn-Out Consideration and the New Business Line Consideration) and the Investment Amount will be funded by the Group’s internal resources.

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.

Holding structure of the Units in MTM Choice Holdings

The Purchase Price for the Acquisition will be satisfied partly by issue of Class A-2 Units and Class A-2 Performance Shares and partly by cash. Before Completion, MTM Choice Holdings’ unaudited consolidated net asset value only amounted to US\$18,412,000 as at 31 October 2018. In order to fund the payment of the Initial Consideration, Pico USA, Inc. may subscribe for additional Class A-1 Units at the Completion Date. If such subscription takes place, it would be part of the Group’s capital outlay as envisaged under the Consideration, while the subscription would increase its holding of Class A-1 Units and its share of distribution entitlement of MTM Choice Holdings. Any subscription of additional Class A-1 Units by Pico USA, Inc. will be at fair value. On the basis of Pico USA, Inc. subscribing for additional Class A-1 Units at US\$1 per Unit in full under the Convertible Loan, Pico USA, Inc.’s holding of Class A-1 Units would be increased to 32,867,806 Class A-1 Units, thus entitling Pico USA, Inc. to share approximately 59.89% of the distributions of MTM Choice Holdings upon payment of the Consideration at Completion by issuance of 4,600,000 Class A-2 Units plus 400,000 Class A-2 Performance Shares, and to share 56.11% of the distribution of MTM Choice Holdings upon payment of the

Earn-Out Consideration, taking into account the issue of Class A-2 Units to the Seller based on maximum amounts of the Earn-Out Consideration satisfied by issuance of the maximum amount of Class A-2 Units.

Assuming that Pico USA, Inc. will subscribe for the maximum number of Class A-1 Units under the Convertible Loan and that the maximum number of Class A-2 Units will be issued in full pursuant to the Purchase Agreement, the following table provides the holding structure of the Units in MTM Choice Holdings in various stages of the transaction under the Acquisition.

Stage		Pico USA, Inc.		Other Class A-2 Units Members		Holders of Class A-2 Performance Shares		Seller		Class B Member	
		Class A-1 Units	% of distribution entitlement	Class A-2 Units	% of distribution entitlement	Class A-2 Performance Shares	% of distribution entitlement	Class A-2 Units	% of distribution entitlement	Class B Units	% of distribution entitlement
1	Immediately before Completion	19,867,806	61.35	6,039,401	18.65	0	0	0	0	10,000	20.00
2	Immediately after Completion but before the conversion of Convertible Loan	19,867,806	51.43	6,039,401	15.63	400,000	1.03	4,600,000	11.91	10,000	20.00
3	Immediately after the conversion of Convertible Loan for an amount of US\$13,000,000	32,867,806	59.89	6,039,401	11.00	400,000	0.73	4,600,000	8.38	10,000	20.00
4	After paying Holdback Consideration (Note 1)	71,107,806	62.65 (Note 2)	14,689,401	12.94	400,000	0.36	4,600,000	4.05	10,000	20.00
5	After paying Earn-Out Consideration (Note 1)	82,907,806	56.11 (Note 2)	18,289,401	12.38	400,000	0.27	16,600,000	11.24	10,000	20.00

Note 1: These represent the maximum number of Class A-1 and Class A-2 Units which can be issued and converted at various stages taking into account the Acquisition and all previous subscription rights granted to Pico USA, Inc. and others made available pursuant to arrangements made prior to the Completion, and the Convertible Loan and assuming all such rights were exercised and also, the maximum dilution effect.

Note 2: Assuming there is no conversion of any previous subscription rights or of the Convertible Loan, the percentage of distribution will become 40.18% and 28.82% respectively at stage 4 and stage 5 above.

Before Completion, Pico USA, Inc. held 19,867,806 Class A-1 Units, other A-2 Units members (the “**Other Class A-2 Units Members**”) collectively held 6,039,401 Class A-2 Units (A-1 and A-2 being all the series of Class A Units) and the Class B Member remained to hold 10,000 Class B Units.

Upon Completion, 400,000 Class A-2 Performance Shares will be issued to the Participants.

Counting the Class A-2 Units to be issued to the Seller as the Initial Consideration, the Other Class A-2 Units Members and the Seller will hold a total of 10,639,401 Class A-2 Units of the Parent, which render them collectively entitled to nominate one director of the Parent.

Pursuant to the Purchase Agreement, subject to the payment of the Initial Consideration and the Earn-Out Consideration, the Seller may hold Class A-2 Units as set out under this section. Assuming the Holdback Consideration will be set at its minimum being US\$0 and the Post-Completion Adjustment amount is US\$0, the Earn-Out Consideration may reach US\$12,000,000. If the Holdback Consideration does not materialize and the estimated Post-Completion Adjustment amount of US\$755,000 materialize, the Earn-Out Consideration will be reduced to US\$11,245,000, and the Seller's holding of Class A-2 Units will be reduced to 15,845,000. In such circumstances, the percentage of distribution entitlement of Pico USA, Inc., Other Class A-2 Units Members, holders of Class A-2 Performance Shares and Class B Member will be enhanced accordingly.

The status of MTM Choice Holdings as a subsidiary of the Company as and when the Earn-Out Consideration is materialized and settled in the form of issuance of Class A-2 Units by the Parent will be reported in consolidated financial reports of the Company issued for the time being.

Value of Class A-2 Units and Class A-2 Performance Shares

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 Earn-Out Consideration, Class A-2 Unit will be issued for the Earn-Out Consideration at US\$1 per unit. If there is any further issue of Class A Units of significance (being issue of new Class A Units representing 10% or more on an enlarged basis, the "**Previous Significant Issue**") prior to the issue of the Class A-2 Units for payment of the Earn-Out Consideration, Class A-2 Units will be issued for payment of the Earn-Out Consideration at the per-unit value of the Class A Units 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 Units Members) in deciding whether or not to issue further Class A Units and at what per-unit value.

The holders of the 400,000 Class A-2 Performance Shares are entitled to their pro rata share of any payment of Holdback Consideration, Earn-Out Consideration and New Business Line Consideration to the Seller, with a value of US\$1 per share.

Financial information

Set out below is the consolidated financial information of MTM Choice Holdings extracted from the unaudited consolidated financial statements of MTM Choice Holdings for the two years ended 31 October 2017 and 31 October 2018, which have been prepared on an accrual basis:

	For the year ended	
	31 October	
	2018	2017
	<i>unaudited</i>	<i>unaudited</i>
	(US\$)	(US\$)
Net loss before taxation and extraordinary items	5,652,000	1,070,000
Net loss after taxation and extraordinary items	5,360,000	1,048,000

The unaudited consolidated net asset value of MTM Choice Holdings was approximately US\$18,412,000 as at 31 October 2018.

Nature of Class A-1, Class A-2, Class B Units and Class A-2 Performance 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. In addition, and as more fully described below, MTM Choice Holdings may issue Class A-2 Performance Shares, which are not equity interests but rather equity-like instruments that allow the recipients to receive payments based on the distribution rights and increases in value of the Class A-2 Units. The Class A-1 Units, Class A-2 Units, Class B Units and Class A-2 Performance Shares are non-redeemable. The rights and obligations of the Members are summarized as follows:

Distributions

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.

Class A-2 Performance Shares

In connection with the Completion of the Acquisition of the Target Company, the Parent has adopted an equity appreciation rights plan (the “**Plan**”), under which it can issue Class A-2 Performance Shares to certain key employees, consultants and advisors of Parent and its subsidiaries. Except as may be otherwise agreed in writing with the Participants, the Participants in the Plan who are continuing to provide services to the Parent or an Affiliate may receive (i) their pro rata amount of any cash distributed by the Parent on the same basis as if they were then holding an equivalent number of Class A-2 Units, and (ii) upon the closing of a change of control of the Parent as provided under the Plan, an amount per Class A-2 Performance Share equal to the consideration per unit payable to the holder of a single Class A-2 Unit in connection with the change of control of the Parent after taking into account all payments required to be made on Class A-2 Performance Shares minus the strike price of such Class A-2 Performance Share set as of the date they received it. Given that the value of the Class A-2 Units as of the Completion Date will be US\$1 per Unit while the strike price of the Class A-2 Performance Share will be set at US\$0 per share, the fair market value of the 400,000 Class A-2 Performance Shares being issued as of the Completion will be equal to US\$400,000.

Class B Member

The Class B Units are held by Alexei Orlov & Partners LLC, being the Class B Member and is wholly-owned by Mr. Alexei Orlov.

Approval rights

As long as the Class A-2 Units Members (but not holders of Class A-2 Performance Shares) hold at least 4,000,000 Class A-2 Units in aggregate, any of the following matters will require the Class A-2 Units Members' approval:

- (1) amendment of the constitutional document of the Parent that can reasonably be deemed to materially and adversely affect the right of the Class A-2 Units 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 Parent's redemption or repurchase of any units other than in accordance with the constitutional document; and
- (4) admitting new members to the Parent other than in accordance with the constitutional document.

Voting rights

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

Right to receive payment for increase in fair market value from strike price

The holders of Class A-2 Performance Shares have the right to receive payment via the Target Company in an amount equal to the increase in the fair market value of a Class A-2 Unit between the grant date of the Class A-2 Performance Shares and the consummation of a change of control of the Target Company, subject to the conditions including the sole and absolute discretion of the board of directors of the Target Company to determine the strike price of the Class A-2 Units.

Right to nominate directors

According to the constitutional document of MTM Choice Holdings, Class A-1 Units Members shall be entitled to appoint three directors and Class B Member shall be entitled to appoint one director. The holders of Class A-2 Performance Shares are not entitled to nominate any directors. For so long as Class A-2 Units 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 three out of the five directors of MTM Choice Holdings. As a result of the payment of Initial Consideration in the form of issuing

Class A-2 Units at Completion and previous acquisitions, the Class A-2 Units Members will hold at least 10,000,000 Class A-2 Units, they will be entitled to appoint one director and the Company would remain entitled to appoint three out of five directors; in such case MTM Choice Holdings would remain as 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 Choice Holdings is subject to a right of first refusal in favour of MTM Choice Holdings itself and permission of the board of directors of the MTM Choice 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 Choice Holdings. The transfer is also subject to certain drag along and tag along provisions as set out in the constitutional document of MTM Choice Holdings. The holders of Class A-2 Performance Shares are not entitled to transfer such interests.

COMPLETION

In accordance with the Purchase Agreement, the Completion took place on the Completion Date, i.e., 4 March 2019 Eastern time.

INFORMATION ON THE COMPANY, THE PARENT, THE BUYER, THE SELLER AND THE TARGET COMPANY

The Company is a Hong Kong-based investment holding company principally engaged in the provision of exhibition and event marketing services. The Company mainly operates through four segments: (1) Exhibition and Event Marketing Services segment is engaged in the provision of exhibition and event marketing services, including but not limited to the planning of exhibitions, campaign design and the production of video content; (2) Visual Branding Experiences segment is engaged in the provision of visual identity solutions for car brands, catering brands and financial brands, etc; (3) Museum, Themed Environment, Interior and Retail segment is mainly engaged in the design and decoration of showrooms and shops, etc; and (4) Conference and Show Management segment is engaged in the management of conferences and shows.

The Parent is an indirect subsidiary of the Company based in New York and wholly owns the Buyer.

The Buyer is an indirect subsidiary of the Company and the wholly owned subsidiary of the Parent. The Buyer is principally engaged in brand activation and management services through its intelligent media technology platform.

The Seller is the founder and principal of the Target Company.

The Target Company is a marketing agency company organized in New York, USA. It is principally engaged in the design and production services that integrate physical design with digital media, it categorizes its service offering in three main types: concept design, design development and production, and primarily focuses on working with cultural and corporate centers. The Target Company participated in various landmark projects such as the National September 11 Memorial Museum in New York, the Cooper-Hewitt Smithsonian Design Museum in New York and the Cleveland Museum of Art in Cleveland.

Set out below is the financial information of the Target Company extracted from the unaudited management accounts of the Target Company for the two years ended 31 December 2017 and 31 December 2018, which have been prepared on a cash basis:

	For the year ended	
	31 December	
	2018	2017
	<i>unaudited</i>	<i>unaudited</i>
	<i>(US\$)</i>	<i>(US\$)</i>
Net profits before taxation and extraordinary items	4,051,000	1,975,000
Net profits after taxation and extraordinary items	4,051,000	1,975,000

The unaudited net asset value of the Target Company was approximately US\$5,586,000 as at 31 December 2018.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in exhibition and event marketing services as well as other distinct businesses, including visual branding experiences, museum and themed environment, interior and retail, conference and show management, temporary infrastructure for sporting events, and other related business.

The Group has been continuously dedicated to drive transformation, create success and remain focused on the Group's mission of being a global total brand activation company. The past acquisitions and developments had enhanced the Group with a business stream which creates dynamic consumer experiences and brand activation by providing innovative responses and dimensional data-driven brand engagement solutions that blend digital and social marketing and other technology-based modes of engagements. The Target Company is one of the industry experts that specialized in marketing design and production services that integrate physical design with digital media within the USA market. The Acquisition will not only further expand the business exposures of the Group in the USA market but also enlarge the revenue stream of the Group. The Group could also leverage on the expertise of the Buyer as to facilitate the contribution of the business stream to the Group, which is in line with the business strategy of the Group as a whole.

As a result of the Acquisition, the Buyer would not need to develop and build such services from the ground up, potentially saving time and costs. The Acquisition is also expected to accelerate the expansion and the growth of the Buyer's smart media technology and knowhow, to increase the Buyer's competitiveness in the smart media space, to provide a more comprehensive service to clients. It is expected that the business and skills of the Target Company would integrate well with the Buyer's existing business strategy, which is to provide more comprehensive service to global brands seeking specialist services. As such, the Directors believe that the Acquisition will be a profitable investment for the Buyer and will benefit the Company in the long run.

BASIS OF CONSIDERATION

The Purchase Price is determined and based on the historical and projected financial statements of the Target Company, as well as a business review of the service offering, and scope of clients. While the Purchase Price is based upon EBITDA, the Buyer has taken a number of steps to evaluate the performance of the Target Company's business as it relates to the Group's strategic plan and how relevant the Target Company will be to the dynamic changing forces across key international markets.

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.

Deal Assumptions

The management of the Buyer made reference to a number of factors, and more importantly (i) the EBITDA targets and other performance targets that the Target Company needs to achieve in order for the maximum price to apply, (ii) future prospects of the Target Company, (iii) the impeccable reputation of the Target Company in the market amongst clients and its competition; (iv) the well-respected and esteemed present, past and future client portfolio of the Target Company; (v) the excellent staff retention and thought leadership of the Target Company in the experiential field; and (vi) the strong chemistry fit between the Parent and the Target Company. The market consideration calculation is not only based on empirical values, but also statistics from a number of important reports and relevant industry benchmarks used for the evaluation.

Furthermore, the Directors consider that issuance of Class A-2 Units and Class A-2 Performance Shares in lieu of cash to satisfy part of the Purchase Price of the Acquisition would provide for saving to the Group's capital and financial resources as well as aligning the interests of the Seller (who becomes a holder of Units in MTM Choice Holdings and is the most senior management of the Target Company) with the success and continuous growth of MTM Choice Holdings and its subsidiaries including the Target Company, and hence is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Taking into account the aforementioned reasons and benefits of issuing the Class A-2 Units and Class A-2 Performance Shares, Pico USA, Inc.'s potential increase in holding of Class A-1 Units thereby increasing its share of distribution of MTM Choice Holdings, as well as the Purchase Price of the Acquisition being based on the earnings and targeted earnings of the Target Company, market information of M&A (merger and acquisition) transactions and other factors as set out above in this announcement, the Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Buyer is a wholly-owned subsidiary of the Parent, which in turn is a non wholly-owned subsidiary of the Company. Upon the allotment and issue of 4,600,000 Class A-2 Units and 400,000 Class A-2 Performance Shares on Completion, the Group's share of distribution entitlement of the Parent will be diluted from approximately 61.35% to approximately 51.43%, and upon further allotment and issue of Class A-2 Units to satisfy the Earn-Out Consideration with the maximum amount of US\$12,000,000 (assuming the Holdback Consideration did not materialize and the Post-Completion Adjustment amount is US\$0) but assuming no further subscriptions by Pico USA, Inc. of Class A-1 Units in cash to fund other earn-outs in previous acquisitions and under the Convertible Loan, the Group's share of distribution entitlement of the Parent will become 28.82%. The aforesaid allotments constitute a deemed disposal of interest in the Parent under the Listing Rules.

Further, after the Completion, taking into account the Group's continued right to control the board of directors of the Parent, the Parent will continue to be an indirect non wholly-owned subsidiary of the Company and the financial results of the Parent will continue to be consolidated into the financial statements of the Group.

Given that the issue of the Class A-2 Units and Class A-2 Performance Shares pursuant to the Purchase Agreement will not cause a loss of the Group's control over the Parent on Completion, the Deemed Disposal will be accounted for as an equity transaction that will not result in the recognition of any gain or loss in profit or loss.

Pursuant to Rule 14.24 of the Listing Rules, as the Acquisition and the Deemed Disposal constitute one transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the acquisition or disposal, and subject to the reporting, disclosure and/or shareholder approval requirements applicable to such classification.

As none of the percentage ratios (as defined under the Listing Rules) in respect of the Deemed Disposal exceeds 5% and one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition under the Purchase Agreement is more than 5% but less than 25%, the transaction under the Acquisition is classified as a discloseable transaction under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but are exempted from shareholders' approval requirement under the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“2019/20 Fiscal Year”	the 12-month period commencing on 1 November 2019 and ending on 31 October 2020
“2020/21 Fiscal Year”	the 12-month period commencing on 1 November 2020 and ending on 31 October 2021
“Acquisition”	the acquisition of the Membership Interests by the Buyer from the Seller pursuant to the Purchase Agreement
“Affiliate(s)”	any other Person(s) that directly or indirectly, through one or more intermediaries, controls, is/are controlled by, or is/are under common control with, such Person(s). The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise
“Board”	the board of Directors
“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 A-2 Performance Share(s)”	Class A-2 Performance Share(s) to be issued by MTM Choice Holdings pursuant to the Plan
“Class B Member”	the Member holding Class B Units
“Class B Unit(s)”	Class B Unit(s) of MTM Choice Holdings
“Completion”	the closing of the Acquisition
“Completion Date”	the date of closing of the Acquisition, which took place on 4 March 2019 Eastern time

“Company”	Pico Far East Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Company Expenses”	means certain unpaid liabilities to be settled by the Target Company
“Current Assets”	the Target Company’s and its Affiliates’ cash and cash equivalents (net of issued but uncleared checks and drafts but including checks and other wire transfers and drafts deposited or available for the account of the Target Company), accounts receivable (net of allowance for doubtful accounts), prepaid deposits, prepaid expenses, unbilled revenues and other current assets, all determined in accordance with US GAAP and only to the extent acquired pursuant to the terms of the Purchase Agreement
“Current Liabilities”	the following current liabilities of the Target Company: (i) accounts payable (including to Affiliates), (ii) accrued wages payable, (iii) accrued vacation, (iv) accrued property taxes, (v) other accrued liabilities (including deferred revenue and advanced billings) and (vi) and other current liabilities, all determined in accordance with US GAAP, and only to the extent acquired pursuant to the terms of the Purchase Agreement
“Deemed Disposal”	the dilution of the Group’s interest in the Parent as a result of the allotment and issue of the Class A-2 Units and Class A-2 Performance Shares, with a maximum of 16,600,000 units and 400,000 shares respectively amounting to US\$17,000,000 pursuant to the Purchase Agreement
“Director(s)”	the director(s) of the Company
“Earn-Out Consideration”	part of the Purchase Price of the Acquisition as specified in the section headed “Adjustments to Consideration” in this announcement
“EBITDA”	earnings before interest, taxes, depreciation and amortization, calculated in accordance with US GAAP, consistently applied
“Group”	the Company and its subsidiaries
“Holdback Consideration”	part of the Purchase Price of the Acquisition as specified in the section headed “Adjustments to Consideration” in this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined in the Listing Rules)
“Initial Cash Consideration”	part of the Purchase Price of the Acquisition as specified in the sub-section headed “Consideration” in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Member(s)”	member(s) of MTM Choice Holdings
“Membership Interests”	all of the issued and outstanding membership interests of the Target Company
“MTM Choice”/“Buyer”	MTM Choice LLC, a limited liability company organized in Delaware, USA and a wholly-owned subsidiary of MTM Choice Holdings
“MTM Choice Holdings”/“Parent”	MTM Choice Holdings LLC, a limited liability company organized in Delaware, USA and the holding company of MTM Choice
“New Business Line Consideration”	part of the Purchase Price of the Acquisition as specified in the section headed “Adjustments to Consideration” in this announcement
“Participant(s)”	being four key executives of the Target Company, and are Independent Third Parties
“Person(s)”	individual(s), corporation(s), partnership(s), joint venture(s), limited liability company(ies), Governmental Authority(ies), unincorporated organization(s), trust(s), association(s), or other entity(ies)
“Pico USA, Inc.”	an indirect subsidiary of the Company incorporated in Delaware, USA
“Post-Completion Adjustment”	the adjustments to the Initial Consideration after Completion as specified in the section headed “Adjustments to Consideration” in this announcement
“Purchase Agreement”	the Membership Interest Purchase Agreement dated 4 March 2019 entered into between MTM Choice Holdings, MTM Choice, the Target Company and the Seller
“Seller”	Mr. Jacob Barton

“Shareholder(s)”	holder(s) of the share(s) in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Local Projects, LLC, a limited liability company organized in New York, USA
“Units”	Class A Units and/or Class B Units
“US GAAP”	United States generally accepted accounting principles in effect from time to time
“USA”	the United States of America
“US\$”	United States dollar(s), the lawful currency of USA
“%”	per cent.

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

Hong Kong, 4 March 2019

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.