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## **NEWAY GROUP HOLDINGS LIMITED**

**中星集團控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00055)**

### **CONNECTED AND MAJOR TRANSACTION PUT OPTION**

Gain Capital (a wholly-owned subsidiary of the Company) has been granted the Put Option. Should the Put Option be exercised, Dr. Suek would acquire from Gain Capital the entire issued share capital of NEL and the Shareholder's Loan. The Company's proposal not to exercise the Put Option was not approved by the Independent Shareholders at a special general meeting of the Company held on 26 September 2013. A new special general meeting of the Company will be convened at which a resolution will be proposed for the Independent Shareholders to approve the exercise of the Put Option. In case the resolution on the exercise of the Put Option is not approved by the Independent Shareholders and to decide the treatment of the Put Option, a second resolution for the non-exercise of the Put Option, which is conditional on the first resolution for the exercise of the Put Option not being approved, will also be proposed at the same special general meeting.

Dr. Suek is a connected person of the Company. Based on the applicable percentage ratios, the exercise of the Put Option constitutes a connected transaction and a major transaction for the Company subject to Independent Shareholders' approval under the Listing Rules whereas the non-exercise of the Put Option constitutes a connected transaction for the Company subject to Independent Shareholders' approval under the Listing Rules. The Company has established the Independent Board Committee and has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The relevant circular (including the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser in relation to the exercise/non-exercise of the Put Option) is expected to be despatched to the Shareholders on or before 31 December 2013.

\* For identification purpose only

## **BACKGROUND**

On 16 June 2009, Gain Capital (a wholly-owned subsidiary of the Company), the Vendor and Dr. Suek entered into the SP Agreement pursuant to which Gain Capital has acquired from the Vendor the entire issued share capital of NEL and the then shareholder's loan due from NEL to the Vendor. Pursuant to the SP Agreement, Gain Capital has been granted the Put Option.

Reference is made to the Company's announcement dated 17 July 2013 and circular dated 2 September 2013 in respect of the Company's proposal not to exercise the Put Option. As set out in the Company's announcements dated 26 September 2013 and 30 September 2013, the Company's proposal not to exercise the Put Option was not approved by the Independent Shareholders of the Company. In view of the aforesaid, a new special general meeting of the Company will be convened at which the Independent Shareholders will consider and vote on the exercise of the Put Option.

## **PUT OPTION**

### **Date**

The Put Option was conditionally granted to Gain Capital on 16 June 2009 and became exercisable on 1 July 2009.

### **Parties**

Gain Capital is a wholly-owned subsidiary of the Company.

Dr. Suek is the father of Mr. Suek Ka Lun, Ernie, an executive Director and the chairman of the Board, an elder brother of Mr. Suek Chai Hong, an executive Director and the chief executive officer of the Company and the brother-in-law of Dr. Ng Wai Kwan, a non-executive Director. Dr. Suek and his family members are the beneficiaries of a discretionary trust which holds a controlling interest in the Company. Dr. Suek is therefore a connected person of the Company.

### **Subject matter of the Put Option**

The Put Option is exercisable by Gain Capital during the Put Option Period. Should the Put Option be exercised, Dr. Suek would acquire from Gain Capital the entire issued share capital of NEL and the Shareholder's Loan.

## Consideration under the exercise of the Put Option

Should the Put Option be exercised, a consideration of HK\$65 million would be payable by Dr. Suek to Gain Capital on the third business day after the exercise of the Put Option. The consideration is calculated based on the terms of the SP Agreement as follows:

Consideration = A + B – C, where:

A is HK\$65,000,000 (which equals the original consideration for the Acquisition);

B is the investment cost (whether by way of subscription of share capital, shareholder's loan and/or advances by shareholders) contributed by members of the Group (other than members of NEL Group) made towards NEL Group subsequent to the Completion Date, which is nil as at the date of this announcement; and

C is the aggregate of any dividend or distribution declared and paid by NEL Group to any members of the Group (other than members of NEL Group) prior to the completion of the sale and purchase of the entire issued share capital of NEL and the amount of shareholder's loan repaid by NEL Group to the Group, which is nil as at the date of this announcement.

## INFORMATION ON THE NEL GROUP

The NEL Group principally engages in artistes management, production and distribution of music albums, production of concerts and shows and provision of entertainment-related licensing, consulting and agency services.

### Updated financial information

Set out below are the financial results of the NEL Group for the following periods/years:

	For the period from 1 July 2009 <sup>†</sup> to 31 March 2010		For the year ended 31 March 2012		For the six months ended 30 September 2013	
	Unaudited	Unaudited	Audited	Audited	Unaudited	Unaudited
<i>HK\$'000</i>						
Revenue	19,132	21,775	18,180	19,976	7,149	8,646
Profit/(Loss) before tax	1,033	4,404	(9,376)	5,062	227	3,880
Profit(Loss) after tax	<u>809</u>	<u>3,787</u>	<u>(9,615)</u>	<u>5,155</u>	<u>112</u>	<u>3,490</u>

<sup>†</sup> *Completion Date*

The NEL Group's revenue from promotion services carried out by artistes managed by the NEL Group and revenue from licensing of the content of musical works in aggregate amounted to approximately HK\$12.0 million for the period from 1 July 2009 to 31 March 2010, approximately HK\$7.8 million, approximately HK\$4.9 million and approximately HK\$9.2 million for each of the years ended 31 March 2011, 2012 and 2013 respectively and approximately HK\$4.9 million for the six months ended 30 September 2013. Of such amounts, the provision of promotion services and the licensing of the content of musical works to the Neway KB Group in aggregate amounted to approximately HK\$10.5 million for the period from 1 July 2009 to 31 March 2010, approximately HK\$6.2 million, approximately HK\$2.6 million and approximately HK\$7.8 million for each of the years ended 31 March 2011, 2012 and 2013 respectively and approximately HK\$4.5 million for the six months ended 30 September 2013.

The NEL Group also provides entertainment-related consulting and agency services to other members of the Group. The NEL Group provides market information such as market trends in the entertainment industry in Hong Kong and the PRC to other members of the Group, and advises on entertainment projects including their operation, feasibility and prospects. The NEL Group maintains contacts in the Hong Kong and PRC entertainment industry and introduces entertainment project opportunities to other members of the Group. Such consulting and agency services to the other members of the Group, forming part of the revenue of the NEL Group, amounted to approximately HK\$5.7 million for the year ended 31 March 2013 and HK\$0.9 million for the six months ended 30 September 2013. The NEL Group did not record such income before the financial year ended 31 March 2013. Apart from the aforesaid consulting and agency services, the NEL Group has not recorded any other income from other members of the Group.

The Group recorded goodwill of approximately HK\$36 million arising from the Acquisition. For the year ended 31 March 2012, the NEL Group incurred losses from holding concerts and shows during the year. Furthermore, the income from the provision of promotion services by the NEL Group to the Neway KB Group decreased during the year as the Neway KB Group required less promotion services. Taking into account the actual performance of the NEL Group for the year ended 31 March 2012 as well as the then prospects of the NEL Group, the Company estimated that the recoverable amount of the NEL Group would not be sufficient to cover the goodwill and the whole amount of the goodwill was written off in the year ended 31 March 2012. The income from the promotion services provided by the NEL Group to the Neway KB Group recovered since 31 March 2012 as a result of increase in demand from the Neway KB Group due to its change of marketing strategy. Furthermore, taking into account costs and profitability of holding concerts and shows, the NEL Group will only hold its first concert since 31 March 2012 for its artiste in December this year.

As at 30 September 2013, the NEL Group reported a net deficiency in assets of approximately HK\$0.1 million comprising total assets of approximately HK\$26.0 million and total liabilities of approximately HK\$26.1 million. As at 30 September 2013, the total assets of the NEL Group consisted of bank balances of approximately HK\$7.0 million, record masters (in relation to production of master tapes of audio-visual products) of approximately HK\$2.3 million, trade and other receivables, prepayments and deposits of approximately HK\$9.7 million, an amount due from Neway KB of approximately HK\$6.7 million and amounts due from members of the Group of approximately HK\$0.3 million. As at 30 September 2013, the total liabilities of the NEL Group consisted of the Shareholder's Loan of approximately HK\$21.2 million and trade payables, accruals and other payables of approximately HK\$4.9 million. Before the Shareholder's Loan, the NEL Group reported net assets of approximately HK\$21.1 million as at 30 September 2013. The Company has not engaged an independent valuer to appraise the current value of the NEL Group.

### **Non-competition undertakings**

Upon completion of the SP Agreement, the Vendor, Dr. Suek and Mr. Suek Ka Lun, Ernie ("Covenantors") executed non-competition undertakings in favour of the Group that for so long as the Covenantors and/or their respective associates, directly or indirectly, whether individually or taken together, remain the controlling Shareholders of the Company (as defined in the Listing Rules), he/it will not and will procure their respective associates not to directly or indirectly (whether as an investor, shareholder, partner, agent or otherwise or whether for profit, reward or otherwise) engage or otherwise be interested in the management of artistes, production and/or distribution of music albums and movie production in Hong Kong. Such non-competition undertakings remain valid.

### **UPDATE ON NEL GROUP'S BUSINESS DEVELOPMENT AND IMPACTS OF EXERCISE OF PUT OPTION**

The Group principally engages in (i) manufacturing and sales of printing products; (ii) trading of printing products; (iii) music and entertainment businesses; (iv) securities trading; and (v) property development and investment. The Group's business of manufacturing and sales of printing products is its principal business segment. Given the challenging operating environment of the business of manufacturing and sales of printing products, the Group has been exploring and continues to explore other business opportunities to broaden the Group's source of income.

## **Development of the Group's entertainment business**

In 2009, the Group acquired the NEL Group and diversified into the entertainment business. Following the Acquisition, the Company changed its name to Neway Group Holdings Limited to reflect the Group's diversification into the entertainment business. Undertaken by the NEL Group and other members of the Group, the Group's entertainment business principally engages in artistes management, production and distribution of music albums, investment in teleplays (TV dramas) and cultural and entertainment projects.

The Group's entertainment business is in the process of development and building market recognition. At present, the NEL Group has 12 contracted artistes including among others HotCha, Stephanie Cheng (鄭融), Jade Kwan (關心妍) and Cheung Chi-Lam (張智霖). Since the Acquisition, the NEL Group has produced 30 albums for artistes including HotCha, Stephanie Cheng, Jade Kwan, Myolie Wu (胡杏兒), Linda Chung (鍾嘉欣) and Cheung Chi-Lam (張智霖). The NEL Group has distributed 52 albums for other artistes including Vivian Chow (周慧敏), Gigi Leung (梁詠琪) and Fiona Sit (薛凱琪). It has produced 18 shows and concerts for artistes including LMF, Cheung Chi-Lam, Jade Kwan and artistes from Japan and Taiwan. It will hold a concert for its artiste Stephanie Cheng in December this year. The NEL Group did not identify as many artistes as envisaged at the time of the Acquisition and more consumers are utilizing new media such as the Internet to access music and songs, causing the NEL Group's sales of CDs to fall below the expectation envisaged at the time of the Acquisition. The NEL Group will endeavour to identify new artistes with talent and potential. It will devote more resources to develop new media markets such as digital downloads complementing the sales of CDs.

The NEL Group's revenue from promotion services provided by its artistes to the Neway KB Group amounted to approximately HK\$6.1 million for the year ended 31 March 2013 and approximately HK\$4 million for the six months ended 30 September 2013. The NEL Group plans to further develop the business of services provided by its artistes including promotion services broadening its income base. The NEL Group has released albums for artistes managed by other companies and a movie soundtrack for "The Way We Dance (狂舞派)". It will continue to invite more labels and partners to release their physical and digital products through the NEL Group and to seek more cooperation opportunities with other entertainment companies. The NEL Group will assess the profitability of producing and organising concerts and shows that yield reasonable returns, and will endeavour to enhance the exposure and popularity of its artistes and promote the market recognition of the NEL Group. The NEL Group disposed of its investments in the production of certain movies in Hong Kong during the year ended 31 March 2011 due to mounting production costs. Apart from the revenue from film production of approximately HK\$1.4 million for the year ended 31 March 2011, the NEL Group did not record any revenue from the production of films in Hong Kong. In consideration of costs, the NEL Group plans to invest in low-budget movies and theaters to allow its artistes to participate.

For the year ended 31 March 2013 and the six months ended 30 September 2013, the NEL Group recorded income from providing consulting and agency services to other members of the Group. The NEL Group provides market information, advises on entertainment projects and introduces entertainment-related investment opportunities to other members of the Group. Leveraging on its experience, business networks and market recognition, the NEL Group will continue to provide such advisory services and introduce potential entertainment projects to other members of the Group.

### **Development in the PRC's entertainment market**

With regard to other development of the Group's entertainment business in particular in the PRC, the Group set up a representative office in Guangzhou and a company in Beijing. The Group (through its members other than the NEL Group) cooperated with television broadcasting companies in the PRC to produce two teleplays which were broadcast on China Central Television (中國中央電視台) channels in 2011. The Group plans to allocate further resources in investment and cooperation opportunities with entertainment partners in the PRC and overseas, including cooperating with PRC TV stations or investors for production of high quality teleplays in the PRC. The Group acquired a 40% equity interest in a joint venture in 2012 to seek investment opportunities in the development of cultural and entertainment projects in Fujian province, the PRC. The Company is optimistic about the long-term development of the Group's entertainment business which should help alleviate the Group's reliance on its business of manufacturing and sales of printing products.

### **Impacts on the exercise of the Put Option**

Leveraging on the NEL Group's market recognition in the entertainment industry, the NEL Group forms the platform from which the Group's entertainment business is positioned to expand and develop particularly in the PRC market. The synergy of the NEL Group with other members of the Group engaging in the entertainment business is important to the development of the Group's entertainment business. The Company considers that the NEL Group will enhance the Group's exposure and market recognition in the entertainment business, assisting the Group to recruit new artistes with talent and potential, form business partnerships in the entertainment industry in the PRC such as production of teleplays and find suitable investment opportunities in cultural and entertainment projects in the PRC.

Should the Put Option be exercised, the members of the NEL Group would cease to be subsidiaries of the Company. The Company estimates that establishing an entertainment group comparable to the NEL Group would entail considerable costs. The Company would need to spend significant amounts to sign up artistes and to build up a catalogue of music and songs, and would incur significant advertisement, promotion and administration expenses. Such a newly set-up entertainment group would take time to grow and build up its reputation, business network and track record. Given that the Group leverages on the NEL Group's market recognition and track record to form business relationships with partners in the PRC entertainment industry, the disposal of the NEL Group would adversely affect the Group's entertainment businesses in particular in the PRC.

The Group would not record any gain or loss on the financial statements of the Group should the Put Option be exercised given that any excess of the consideration under the exercise of the Put Option over the net asset value of the NEL Group (before the Shareholder's Loan), which amounts to HK\$21.1 million based on the net assets of the NEL Group (before the Shareholder's Loan) as at 30 September 2013, would be credited to reserve. On the basis that the Put Option was exercised on 30 September 2013, taking into account other impacts on the reserve, the exercise of the Put Option would have an overall effect of an increase (credit) of approximately HK\$39.5 million in the reserve of the Company. The proceeds from the exercise of the Put Option would be applied as general working capital of the Group.

Taking into account the development of the NEL Group, including its plan to expand and promote its artiste base, and the development in the promotion services and consulting and agency services, the benefits of the NEL Group to the development of other members of the Group and the business opportunities in the entertainment industry in the PRC, the Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the Independent Financial Adviser) do not consider that the exercise of the Put Option is fair and reasonable and in the interests of the Company and its Shareholders as a whole and consider that the Put Option should not be exercised. In view of their relationships with Dr. Suek, Mr. Suek Ka Lun, Ernie, Mr. Suek Chai Hong and Dr. Ng Wai Kwan abstained from voting on the relevant board resolutions in relation to the treatment of the Put Option.

## **LISTING RULES IMPLICATIONS**

The Company will convene a special general meeting at which a resolution will be proposed for the Independent Shareholders to approve the exercise of the Put Option. In case the resolution on the exercise of the Put Option is not approved by the Independent Shareholders and to decide the treatment of the Put Option, a second resolution for the non-exercise of the Put Option, which is conditional on the first resolution for the exercise of the Put Option not being approved, will also be proposed at the same special general meeting.

Dr. Suek and his family members are the beneficiaries of a discretionary trust which holds a controlling interest in the Company. Dr. Suek is therefore a connected person of the Company. Based on the applicable percentage ratios, the exercise of the Put Option constitutes a connected transaction and a major transaction for the Company subject to Independent Shareholders' approval under the Listing Rules whereas the non-exercise of the Put Option constitutes a connected transaction for the Company subject to Independent Shareholders' approval under the Listing Rules. The Company has established the Independent Board Committee and has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The relevant circular (including the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser in relation to the exercise/non-exercise of the Put Option) is expected to be despatched to the Shareholders on or before 31 December 2013.



## DEFINITIONS

The following expressions in this announcement have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the entire issued share capital of NEL and the then shareholder’s loan owed by NEL to the Vendor under the SP Agreement
“Board”	the board of Directors
“Company”	Neway Group Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	1 July 2009, being the date of completion of the Acquisition
“connected person(s)”	has the meaning ascribed to such term in the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Suek”	Dr. Suek Chai Kit Christopher
“Gain Capital”	Gain Capital International Limited, a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee established to advise the Independent Shareholders in relation to the exercise/non-exercise of the Put Option
“Independent Financial Adviser”	Kingsway Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as set out in schedule 5 of the SFO, being the independent financial adviser which has been appointed to advise the Independent Shareholders and the Independent Board Committee in relation to the exercise/non-exercise of the Put Option

“Independent Shareholders”	the shareholders of the Company other than Dr. Suek and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NEL”	Neway Entertainment Limited
“NEL Group”	NEL and its subsidiaries
“Neway KB”	Neway Karaoke Box Limited, a company wholly owned by a discretionary trust for the benefits of Dr. Suek and his family members
“Neway KB Group”	Neway KB and its subsidiaries
“PRC”	the People’s Republic of China
“Put Option”	the put option granted to Gain Capital pursuant to the SP Agreement
“Put Option Period”	the period commencing from the Completion Date to 31 March 2014 (as extended), during which Gain Capital may exercise the Put Option
“Shareholder(s)”	shareholder(s) of the Company
“Shareholder’s Loan”	the shareholder’s loan owed by NEL to Gain Capital from time to time
“SP Agreement”	the agreement dated 16 June 2009 entered into between the Purchaser, the Vendor and Dr. Suek (as warrantor) in relation to inter alia the sale of the entire issued share capital of NEL as amended by the supplemental agreements dated 29 June 2011, 29 June 2012, 28 March 2013 and 30 September 2013

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Neway Enterprise Holdings Limited, the vendor under the SP Agreement
“%”	per cent

By order of the Board  
**Neway Group Holdings Limited**  
**Suek Ka Lun, Ernie**  
*Chairman*

Hong Kong, 6 December 2013

*As at the date of this announcement, the Directors are Mr. Suek Ka Lun, Ernie (Chairman) and Mr. Suek Chai Hong (Chief Executive Officer) being the executive Directors, Dr. Ng Wai Kwan, Mr. Chan Kwing Choi, Warren and Mr. Wong Sun Fat being the non-executive Directors, and Mr. Tse Tin Tai, Ms. Lui Lai Ping, Cecily and Mr. Lee Kwok Wan, being the independent non-executive Directors, and Mr. Lau Kam Cheong being the alternate Director to Dr. Ng Wai Kwan.*