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CITYCHAMP WATCH & JEWELLERY GROUP LIMITED

冠城鐘錶珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 256)

SETTLEMENT AGREEMENT IN RELATION TO THE NON-FULFILMENT OF THE PROFIT GUARANTEES

Reference is made to the JV Announcement dated 29 December 2011.

The Profit Guarantees under the Framework Agreement have not been met.

On 20 April 2015, Actor, Kuntai Hengshi and the PRC Partners entered into the Settlement Agreement pursuant to which Actor, Kuntai Hengshi and the PRC Partners agreed to terminate the JV Agreements. Pursuant to the Settlement Agreement, Actor agreed to transfer its 51% equity interest in the JV Company to Kuntai Hengshi (or a party it designates), and Kuntai Hengshi and the PRC Partners agreed to refund to Actor all of its investments in the JV Company (including the Registered Capital Investment Amount, the Capital Injection Amount and the Compensation Amount).

The entering into of the Settlement Agreement is neither a notifiable transaction nor a connected transaction of the Company under the Listing Rules.

Reference is made to the announcement of the Company dated 29 December 2011 in relation to the formation of a joint venture company (the “**JV Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the JV Announcement.

INTRODUCTION

On 29 December 2011, Actor, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with the PRC Partners, namely Ms. Wang Renfeng, Mr. Wang Zhijun and Mr. Yang Feng to establish the JV Company, an equity joint venture in the PRC. On the same date, Actor and Kuntai Hengshi entered into the JV Agreement in relation to the formation of the JV Company and adopted the articles of association of the JV Company.

The JV Company was established in January 2012 and owned as to 51% by Actor and 49% by Kuntai Hengshi. The JV Company is a subsidiary of the Company.

Pursuant to the Framework Agreement, Ms. Wang Renfeng has guaranteed that the profit after tax of the JV Company for the three years ended 31 December 2014 shall be no less than RMB20 million, RMB26 million and RMB33.8 million (the “**Profit Guarantees**”) respectively. The profit guarantee for the year ended 31 December 2012 shall be adjusted on a pro rata basis subject to the actual commencement date of operation of the JV Company.

THE PROFIT GUARANTEES AND THE SHORTFALL

According to the management accounts of the JV Company, the profit after tax of the JV Company for each of the three years ended 31 December 2014 were less than the Profit Guarantees. Set out below was the profit after tax of the JV Company for each of the three years ended 31 December 2014 and the respective shortfall as compared to the Profit Guarantees.

	For the year ended 31 December		
	2012	2013	2014
Profit after tax (<i>approx. RMB' million</i>)	10.7	5.5	2.9
Profit Guarantees (<i>RMB' million</i>)	15 (<i>Note</i>)	26	33.8
Shortfall (<i>approx. RMB' million</i>)	4.3	20.5	30.9

Note: The JV Company commenced operation in April 2012 and the Profit Guarantee for the year ended 31 December 2012 was adjusted to RMB15 million according to the terms of the Framework Agreement.

Pursuant to the Framework Agreement, in the event that the actual profit after tax of the JV Company for any of the three years ended 31 December 2014 was less than the guaranteed profit, Ms. Wang Renfeng shall compensate the JV Company the shortfall on a dollar-to-dollar basis. No adjustment mechanism on the consideration, option to sell the company back to Kuntai Hengshi nor other rights were provided in the Framework Agreement as a result of the shortfalls between the Profit Guarantees and the actual profits after tax for the three years ended 31 December 2014.

Our executives have endeavored to closely monitor the fulfillment of the Profit Guarantees and the recovery of the compensations. A series of meetings has been held with Ms. Wang Renfeng in order to recover the compensations. However, as at the date of this announcement, no compensation has been paid by Ms. Wang Renfeng. The Directors (including the independent non-executive Directors) are of the view that Ms. Wang Renfeng has not fulfilled her obligations to compensate the JV Company the shortfalls between the Profit Guarantee and the actual profit after tax for the three years ended 31 December 2014 in accordance with the Framework Agreement.

SETTLEMENT AGREEMENT

Pursuant to the Framework Agreement, Actor shall invest a sum of RMB15.3 million (the “**Registered Capital Investment Amount**”) in cash for a 51% interest in the registered capital of the JV Company and RMB15.3 million (“**Capital Injection Amount**”) in cash for the capital injection in the JV Company. It is also stated in the Framework Agreement that Actor shall pay RMB51 million (the “**Compensation Amount**”) to the PRC Partners as a compensation for the transfer of the operating assets, businesses and the Intellectual Property Rights to the JV Company and the non-competition undertakings from the PRC Partners. Such compensation shall be settled as to RMB6.5 million in cash (“**Compensation Cash Amount**”) and RMB44.5 million by the issue and allotment of 54,527,631 Shares (“**Compensation Shares**”) at the issue price of HK\$1 each by the Company. As at the date of this announcement, all the Registered Capital Investment Amount, Capital Injection Amount and Compensation Amount have been satisfied by the Group. No further investment or shareholder’s loan has been made to the JV Company.

On 20 April 2015, Actor, Kuntai Hengshi and the PRC Partners entered into a settlement agreement (the “**Settlement Agreement**”) pursuant to which Actor, Kuntai Hengshi and the PRC Partners agreed to terminate the letter of intent in relation to the formation of the JV Company, the Framework Agreement, the JV Agreement and the agreement entered into amongst the JV Company and the PRC Partners in relation to the operating targets of the JV Company (collectively, the “**JV Agreements**”). Upon the entering into of the Settlement Agreement, the JV Agreements shall be terminated and the parties to the Settlement Agreement shall satisfy its respective obligations under the Settlement Agreement. As a result, the Company will no longer entitle to any compensation for the shortfalls as compared to the Profit Guarantees.

Pursuant to the Settlement Agreement, Actor agreed to transfer its 51% equity interest in the JV Company to Kuntai Hengshi (or a party it designates), and Kuntai Hengshi and the PRC Partners agreed to refund to Actor all of its investments in the JV Company (including the Registered Capital Investment Amount, the Capital Injection Amount and the Compensation Amount). The refund of the Registered Capital Investment Amount, the Capital Injection Amount and the Compensation Amount shall be settled in the following manners:

- (i) HK\$11,277,631 (being part of the refund for the Compensation Shares) in cash payable to Actor within 5 business days after the date of the Settlement Agreement;
- (ii) the proceeds from the sale of 43,250,000 Shares (being part of the refund for the Compensation Shares) by Ms. Wang Renfeng payable to Actor within 15 business days after the date of the Settlement Agreement (or any other date as agreed by the Actor and Ms. Wang Renfeng);
- (iii) RMB21.8 million (being the refund for the Capital Injection Amount and the Compensation Cash Amount) in cash to the Group, within 5 business days after the JV Company having obtained the approval by the Ministry of Commerce for the change of the JV Company from a sino-foreign enterprise to domestic enterprise; and

- (iv) RMB15.3 million (being the refund for the Registered Capital Investment Amount) in cash payable to Actor within 5 business days after all procedures of the transfer of 51% equity interest in the JV Company to Kuntai Hengshi having been completed.

Pursuant to the Settlement Agreement, Actor shall cooperate with Kuntai Hengshi to process the procedures to transfer its 51% equity interest in JV Company within 10 days after Actor having received the refund for the Compensation Shares (i.e. HK\$11,277,631 in cash and the proceeds from the sale of 43,250,000 Shares by Ms. Wang Renfeng).

REASONS FOR THE ENTERING INTO OF THE SETTLEMENT AGREEMENT

Having considered the non-satisfactory performance of the JV Company, the Directors consider the Settlement Agreement provides the opportunity for the Company to dispose its equity interest in the JV Company and thus, can reallocate its resources to a more promising business. The Directors (including the independent non-executive Directors) are of the view that the terms of the Settlement Agreement are fair and reasonable and in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

As none of the applicable percentage ratios in respect of the transactions contemplated under the Settlement Agreement exceeds 5%, the entering into of the Settlement Agreement does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

By virtue of Rule 14A.09 of the Listing Rules, the JV Company is an insignificant subsidiary of the Company, and thus the PRC Partners and Kuntai Hengshi are not connected persons of the Company and the transactions contemplated under the Settlement Agreement does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. Save for the formation of the JV Company, there is no other relationship between the Company and the PRC Partners and Kuntai Hengshi.

By order of the Board
Citychamp Watch & Jewellery Group Limited
Fong Chi Wah
CFO & Company Secretary

Hong Kong, 20 April 2015

As at the date of this announcement, the Board comprises Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao, Mr. Lam Toi Man, Mr. Bi Bo, Ms. Sit Lai Hei, Mr. Hon Hau Wong and Mr. Tao Li who are the executive directors, and Mr. Fung Tze Wa, Dr. Kwong Chun Wai Michael, Mr. Li Qiang and Mr. Zhang Bin, who are the independent non-executive directors.