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Crown International Corporation Limited
皇冠環球集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

SUPPLEMENTAL ANNOUNCEMENT
(1) VERY SUBSTANTIAL ACQUISITION
AND
(2) SPECIFIC MANDATE TO ISSUE NEW SHARES

Financial adviser to the Company



Reference is made to the announcement of the Crown International Corporation Limited (the "Company") dated 7 November 2014 (the "Announcement") in relation to the Acquisition. The Directors confirm that as at the date of this announcement and save as disclosed herein none of the key terms of the Sale and Purchase Agreement was changed. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

Subsequent to the Sale and Purchase Agreement, on 22 January 2015, after trading hours, the Purchaser and the Vendor entered into a supplemental sale and purchase agreement ("Supplemental Sale and Purchase Agreement"), pursuant to which the parties agreed to amend certain terms and conditions under the Sale and Purchase Agreement. Set out below are the amended terms and conditions under the Supplemental Sale and Purchase Agreement:

A. AMENDMENTS TO THE SALE AND PURCHASE AGREEMENT

1. Payment terms

The Consideration shall be payable by the Purchaser to the Vendor in the following manner:

- (i) as to HK\$75,600,000 by cash within 10 Business Days immediately after the Sale and Purchase Agreement takes effect;
- (ii) as to HK\$12,200,000 by cash within one year after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser;
- (iii) as to HK\$12,200,000 by cash between one to two years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser;
- (iv) as to HK\$600,000,000 by cash between two to three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser; and
- (v) as to HK\$308,000,000 by the allotment and issue of the Consideration Shares immediately after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser.

As at the date of this announcement, HK\$75,600,000 has been paid by the Purchaser to the Vendor.

2. Costs which shall borne by the Vendor before the Long Stop Date

Pursuant to the Supplemental Sale and Purchase Agreement, (a) the amount of approximately RMB83.92 million (equivalent to approximately HK\$105.74 million) (the “Remaining Liabilities”), which is calculated based on the unaudited total liabilities of the Target Company of RMB237.17 million (equivalent to approximately HK\$298.83 million) as at 31 October 2014 minus the amount due to shareholders of the Target Company to be borne by the Enlarged Group of approximately RMB153.25 million (equivalent to approximately HK\$193.10 million) as at 31 October 2014; (b) future capital expenditure, other financial commitment and encumbrances required for the actual completion of the Property (together the “Actual Completion Costs”); (c) the interest amount and compensation amount due to the relevant buyers and 佛山市優越百貨管理有限公司 (Foshan Youyue Department Store Management Limited (“Youyue Department Store”) to be incurred before 31 March 2015 (or such later date as the Vendor and the Purchaser may agree in writing) (the “Long Stop Date”); and (d) any expenses, penalties and damages incurred by the Target Company arising from any non-compliance with relevant laws and regulations including but not limited to social security and housing provident fund contributions for employees shall be borne by the Vendor before the Long Stop Date. In the event that the Vendor fails to settle the aforesaid before the Long Stop Date, the Purchaser shall then offset by the last cash payment of HK\$600,000,000, which is due between two to three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived. For details in relation to (c) and (d) above, please refer to the section headed “B. Information on the Vendor, the Target Company and the Property” of this announcement.

3. Basis for Consideration

The Consideration of the Acquisition shall be HK\$1,008,000,000, in which HK\$700,000,000 will be satisfied by cash payment and the remaining HK\$308,000,000 will be satisfied by the allotment and issue of the Consideration Shares. The Consideration was determined based on, among other things, (a) the fair value of the Property on a completion basis of RMB1,245.00 million (equivalent to approximately HK\$1,568.70 million), as per valuation performed by Peak Vision Appraisals Limited, an independent valuer (the “Valuer”) as at 31

December 2014; (b) the book value of properties under development comprises mainly construction expenditure incurred up to 31 October 2014; (c) the fair value of the Property does not take into consideration the Remaining Liabilities and the Actual Completion Costs, which shall be borne by the Vendor pursuant to the Supplemental Sale and Purchase Agreement; (d) the Consideration (i.e. cost of acquisition) of the Property is HK\$1,008,000,000, representing a discount of approximately 26.72% to the fair value of the Property on a completion basis assuming free from encumbrances as at 31 December 2014 minus the amounts due to shareholders of the Target Company to be borne by the Enlarged Group as at 31 October 2014; (e) the future prospects of the real estate market in Zhongshan City, the PRC; (f) the terms and conditions of the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement); and (g) the quality and size of the Property held by the Target Company. The Valuer has applied the direct comparison approach assuming sale of property interest as if completed, with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. In light of the above and taking into account the Consideration was determined between the Company and the Vendor after arm's length negotiations and on normal commercial terms, the Directors consider that the Consideration to be attractive, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Conditions precedent

Completion of the Acquisition is conditional upon, among other things, the fulfillment (or waiver by the Purchaser) of the following conditions:

- (i) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;
- (ii) the passing of resolutions by the Shareholders at the SGM approving the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) and the transactions contemplated thereunder, including but not limited to allotment and issue of the Consideration Shares;

- (iii) the Vendor having obtained all necessary approvals, authorizations and consents and completed all necessary registrations and filings (if applicable) (together the “PRC Approvals”) and with the relevant governmental authorities or regulatory bodies (including but not limited to governmental authorities or regulatory bodies in the PRC) in respect to the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement);
- (iv) the Target Company has obtained the approval and permit for completion and acceptance for the Property in accordance with relevant laws and regulations;
- (v) the Target Company has terminated relevant sales contracts and lease agreement with respect to the Property;
- (vi) the warranties given by the Vendor under the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) remaining true, correct and not misleading in all material respects on or before Completion;
- (vii) the Purchaser being reasonably satisfied with the results of the due diligence review of the business, operations, legal and financial position of the Target Company pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement); and
- (viii) the Purchaser being satisfied that there are no circumstances, facts or situation constituting or possibly constituting a breach of Vendor’s warranties under the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) and the Vendor having complied with all of its respective obligations under the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement).

The above conditions (i) to (iii) cannot be waived. As at the date of this announcement, condition (vii) has been fulfilled, and the Purchaser has no intention to waive conditions (iv), (v), (vi) and (viii) above. The parties to the Supplemental Sale and Purchase Agreement have agreed that some of the conditions are capable of being waived except for conditions (i) to (iii), as a matter of practicality and to provide the Purchaser with the flexibility to proceed to Completion even if some of the conditions are not fulfilled in full. Conditions (i) to (iii) relate to requirements of the Listing Rules and other legal requirements with which the Company or Target Company must comply. None of the conditions which is capable of being waived under the Supplemental Sale and Purchase Agreement is a regulatory or legal requirement which is applicable to the Company and therefore it is for the parties to the Supplemental Sale and Purchase Agreement to agree commercially on how to deal with them.

In any event when exercising the right to waive a condition, the Purchaser will only waive a condition and proceed to Completion only if the Purchaser is satisfied that waiver of such condition(s) will not affect the substance of the Acquisition and/or adversely affect the financial position or operations of the Group.

If any of the above conditions precedent is not fulfilled or waived in writing by the Purchaser on or before the Long Stop Date, the Purchaser may terminate the Supplemental Sale and Purchase Agreement, in which case none of the parties shall have any claim against the others for costs, damages, compensation or otherwise and the Vendor shall within 3 Business Days after demand refund full amount of HK\$75,600,000 cash payment to the designated account of the Purchaser upon Purchaser's written notice to Vendor. As at the date of this announcement, conditions (iv), (v), (vi) and (viii) have not been fulfilled.

Taking into account the above conditions can be fulfilled (or waiver, as the case maybe) by the Purchaser before the Long Stop Date, and particularly, as advised by the Vendor, approximately 97% GFA of the Property has been completed as at the date of this announcement and the process of obtaining of the PRC Approvals is underway, the Board does not foresee any difficulties for the completion of the Property, as well as obtaining the PRC Approvals before the Long Stop Date.

5. Amounts due to shareholders of the Target Company

The amounts due to shareholders of the Target Company was approximately RMB153.25 million (equivalent to approximately HK\$193.10 million) as at 31 October 2014, which shall be borne by the Enlarged Group. Such repayment of amount was agreed between the Purchaser and the Vendor based on commercial decision. The advances from shareholders were for the payments to contractors for their work on the property under development, which were unsecured, interest free and repayable on demand. Subject to the terms and conditions of the Supplemental Sale and Purchase Agreement, the Enlarged Group shall pay the amount due to shareholders of the Target Company of approximately RMB153.25 million (equivalent to approximately HK\$193.10 million) as at 31 October 2014 in three installments: (i) as to RMB3.25 million (equivalent to approximately HK\$4.10 million) by cash within one year after all conditions precedent are fulfilled or waived; (ii) as to RMB10.00 million (equivalent to approximately HK\$12.60 million) by cash between one to two years after all conditions precedent are fulfilled or waived; and (iii) as to RMB140.00 million (equivalent to approximately HK\$176.40 million) by cash between two to three years after all conditions precedent are fulfilled or waived.

B. INFORMATION ON THE VENDOR, THE TARGET COMPANY AND THE PROPERTY

In addition to the information disclosed in the Announcement, the Board would like to provide further information to the Shareholders regarding the Vendor, the Target Company and the Property.

As at 31 October 2014, the Target Company has 7 employees but no employment contracts were signed with them. As at the date of this announcement, the Target Company has not paid certain social security and housing provident fund contributions for the 5 employees and with the other 2 employees have been retired. As advised by the Company's PRC legal adviser, based on their understanding and enquiry with the 中山市人力資源和社會保障局 (Zhongshan Human Resources and Social Security Bureau) and 中山市住房公積金管理中心 (Zhongshan Housing Provident Fund Management Center), staff who reaches statutory retirement age does not fall within the definition of "employees" under the PRC Social Security Law and the Regulations on Management of Housing Provident Fund. Given that the 2 retired employees have already reached the statutory retirement age at the time they joined the Target Company as employees,

therefore, the Target Company is not required to pay the relevant social securities and housing provident fund for these 2 retired employees accordingly. As advised by the Target Company's PRC legal adviser, the Target Company may be ordered by the relevant PRC authorities to pay additional wages or economic compensation to staffs for their past employment, as well as relevant social security, housing provident fund contributions and overdue fine within a stipulated deadline. In accordance with the Supplemental Sale and Purchase Agreement, the Vendor shall reimburse the Target Company for any expenses, penalties and damages incurred by the Target Company arising from any non-compliance with relevant laws and regulations before the Long Stop Date, including but not limited to social security and housing provident fund contributions for the 5 employees. The Company's PRC legal adviser advised that pursuant to Article 10 of Regulations on Social Basic Pension Insurance of Guangdong Province provides that *"The employment units shall pay the pension insurance in the amount of the average monthly salary of the insured in the previous year times a certain ratio"*. In addition, pursuant to Article 16 and Article 18 of the Regulations on Management of Housing Provident Fund, *"The housing provident fund paid and deposited by the employment unit each month for a worker or staff shall be the amount of the average monthly salary of the worker or staff in the previous year times the payment and deposit ratio of housing provident fund of the unit"* and *"The payment and deposit ratio of housing provident fund of the employment unit shall not be less than 5% of the monthly average salary in the previous year"*, respectively. According to the website of 中山市社會保險基金管理局 (Zhongshan Social Insurance Fund Management Bureau) (www.gdzs.si.gov.cn), the aggregate contributions for social security by employers are approximately 14.00%. Based on the above, the maximum liabilities for the non-compliance with relevant rules and regulations, including social security (together with overdue penalties) and housing provident fund contributions for the 5 employees are estimated to be approximately RMB0.24 million (equivalent to approximately HK\$0.30 million) as at 31 October 2014. Such maximum liabilities include the amount of non-compliance fees for social security (together with overdue penalties) of approximately RMB0.19 million (equivalent to approximately HK\$0.24 million) as at 31 October 2014 and housing provident fund contributions of approximately RMB0.05 million (equivalent to approximately HK\$0.06 million) as at 31 October 2014, respectively. In light of the above, and particularly costs in relation to social security and housing provident fund contributions for the employees shall be borne by the Vendor, the Directors consider that any judgment or decision against the Target Company in respect of the aforesaid matter shall not materially and adversely affected the Enlarged Group's financial conditions and operation results.

The Target Company has signed sale and purchase agreements to sell 17 flats to third parties in 2011 and 2012. According to the sale and purchase agreements, the flats should be handed over to the buyers in December 2012 or 30 June 2013. However, up to 31 October 2014, the flats were not ready for handling over. Such delay was mainly due to financial strain and underestimation of the time required for completion of the shopping mall. As advised by the Target Company, the Property is expected to be completed on time by March 2015. Accordingly, interest should be paid to compensate the buyers for delayed handling over. The amount of interest incurred was approximately RMB0.47 million (equivalent to approximately HK\$0.59 million) as at 31 October 2014. The Target Company has also signed another sale and purchase agreement with the ex-shareholder, 雲南凱茵房地產開發有限公司 (Yunnan Kaiyin Property Development Limited), for the sale of 40 flats, which was deemed as cancelled and a compensation of RMB12.60 million (equivalent to approximately HK\$15.88 million) was provided for such cancellation. The receipt in advance for the aforesaid 57 flats in aggregate amounted to approximately RMB37.70 million (equivalent to approximately HK\$47.50 million) as at 31 October 2014. As at the date of this announcement, the Target Company is working on refund of monies paid by the relevant buyers and settlement of interest and compensation with an aggregate amount of RMB50.77 million (equivalent to approximately HK\$63.97 million) in relation to 57 flats.

In May, the Target Company signed a tenancy agreement with Youyue Department Store for the shopping mall. However, Youyue Department Store was not satisfied with the condition that the approval for the 竣工及驗收 (completion and acceptance) has not been obtained by the Target Company and the ancillary facilities of the shopping mall. Youyue Department Store then sent a letter to the Target Company to cancel the tenancy agreement and claimed for a compensation in accordance with the agreement. As such, the Target Company made provisions for compensation of approximately RMB7.50 million (equivalent to approximately HK\$9.45 million). The deposit paid by Youyue Department Store for the tenancy agreement amounted to approximately RMB5.00 million (equivalent to approximately HK\$6.30 million). As at the date of this announcement, the Target Company is working on refund of monies paid by Youyue Department Store and settlement of compensation with an aggregate amount of RMB12.50 million (equivalent to approximately HK\$15.75 million).

According to the Supplemental Sale and Purchase Agreement, in the event that the Vendor fails to settle the interest amount and compensation amount due to the relevant buyers and Youyue Department Store (“Possible Settlement Amount”) before the Long Stop Date, the Buyer shall offset the Possible Settlement Amount with the cash payment of HK\$600,000,000, which is due between two to three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived. Given the fact that (1) cancelling the tenancy agreement by Youyue Department Store was mainly due to the reason that the approval for completion and acceptance has not been obtained by the Target Company in a timely manner without involvement of any quality issue of the Property; (2) the Possible Settlement Amount in aggregate can offset with the last cash payment of HK\$600,000,000 as mentioned aforesaid should the Vendor fails to settle before the Long Stop Date; and (3) the approval for the completion and acceptance is expected to be obtained by the Target Company before the Long Stop Date, the Board therefore considered that the settlement of the Possible Settlement Amount in aggregate, may not have any material financial impact on the Group as a whole.

The Target Company has received all necessary approvals and permits, etc. for the residential and commercial properties save and except for completion and acceptance after completion of the Property. As advised by the Vendor, the Target Company will obtain the approval for completion and acceptance before the Long Stop Date following the development of the Property, which is expected to be completed in early March 2015.

The Target Company owns the following approvals/permits as at the date of this announcement:

Approvals/permits (Approvals/Permits Number)	Date of grant	Validity period	Conditions of grant, if any
State-owned Land Use Rights Certificate – Zhong Fu Guo Yong (2003) No. 211468	17 November 2003	20 January 2062	N/A
Construction Works Commencement Permit – No. 442000201003190132ZX0879	19 March 2010	N/A	N/A

Approvals/permits (Approvals/Permits Number)	Date of grant	Validity period	Conditions of grant, if any
Construction Works Planning Permit – Jian Zi No. 281042009090027	21 December 2009	N/A	N/A
Construction Land Use Planning Permit – No. 280222007050040(Bu)	12 June 2007	N/A	N/A
Commercial Housing Pre-sale Permit – Zhong Jian Fang (Yu) Zi No. 2011328	14 March 2014	14 March 2016	N/A

Superstructure works of the Property have been completed and installation of building services and escalators are currently being carried out. Completion of construction of the Property is expected to be early March 2015.

Unless otherwise specified in this announcement, amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB1.00 = HK\$1.26 for information purpose only. Such translation should not be construed as a representation that any amount in RMB has been, could have been or may be converted at the above rate or at all.

By order of the Board
Crown International Corporation Limited
Liao Pin Tsung
Chairman

Hong Kong, 22 January 2015

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. LIAO Pin Tsung and Mr. MENG Jin Long; one non-executive Director, namely Mr. LIU Hong Shen and three independent non-executive Directors namely, Mr. LONG Tao, Mr. REN Guo Hua and Mr. CHEN Fang.