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MING FUNG JEWELLERY GROUP LIMITED

明豐珠寶集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 860)

DISCLOSEABLE TRANSACTION

The Board wishes to announce that on 6 October 2014, the Company as purchaser, the Vendor as vendor and the Guarantor as guarantor entered into the Agreement pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell, the Sale Share and the Shareholders Loan at a total consideration of HK\$138,000,000 which will be satisfied by the issue and allotment by the Company to the Vendor the Consideration Shares at Completion. The Guarantor will guarantee to the Purchaser the full, due and punctual performance by the Vendor of all its obligations under the Agreement.

On the basis that the issued share capital of the Company comprises 6,549,040,939 Shares as at the date of this announcement, the Consideration Shares represent (i) approximately 24.79% of the issued share capital of the company as at the date of this announcement; and (ii) approximately 19.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Subject to the satisfaction or (as the case may be) waiver of all the conditions precedent under the Agreement, Completion shall take place on the Completion Date or such other time as may be agreed between the Purchaser and the Vendor.

* *For identification purpose only*

As the Acquisition exceeds 5% but does not exceed 25% of one or more of the applicable percentage ratios (as defined in the Listing Rules), the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules.

The Consideration Shares will be issued and allotted under a specific mandate to be sought at the EGM. The Board will seek approval from the Shareholders at the EGM for the grant of a specific mandate for the issue and allotment of the Consideration Shares.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares and a circular containing, among other things, further details of the Agreement and other relevant information as required by the Listing Rules will be despatched to the Shareholders as soon as possible. A notice of the EGM will be despatched to the Shareholders together with the said circular.

THE ACQUISITION

The Board wishes to announce that on 6 October 2014, after trading hours, the Company as purchaser, the Vendor as vendor and the Guarantor as guarantor entered into the Agreement pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell, the Sale Share and the Shareholders Loan at a consideration of HK\$138,000,000 which will be satisfied by the issue and allotment by the Company to the Vendor the Consideration Shares at Completion. The Guarantor will guarantee to the Purchaser the full, due and punctual performance by the Vendor of all its obligations under the Agreement.

THE AGREEMENT

Date

6 October 2014

Parties

Company : the Purchaser

Vendor : the Vendor

Guarantor : the Guarantor

As at the date of this announcement, the Vendor is the Shareholder which owns 9.5% of the issued share capital of the Company. The Guarantor, as the sole shareholder and director of the Vendor, is deemed to be interested in the Shares held by the Vendor under the SFO. The Vendor and the Guarantor are otherwise not connected to, the Company and its connected persons (as defined in the Listing Rules).

Assets to be acquired

The Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Share, which represents the entire issued share capital of the Target Company, and the Shareholders Loan.

The Sale Share will be acquired free of liens, encumbrances and other claims and together with all rights attaching thereto as at the date of the Agreement, including the right to receive dividends and distributions declared, made or paid after the date of the Agreement.

The Target Company is an investment holding company wholly-owned by the Vendor as at the date of this announcement. The Target Group is the exclusive distributor of the Products bearing the trademarks of GIRARD-PERREGAUX and JEANRICHARD in the territories of the mainland China, Macau, Hong Kong and Taiwan (travel retail business comprising DFS Groups Limited excepted). For further information on the Target Company, please refer to the section headed “Information on the Target Group” below.

Consideration

The consideration of HK\$138,000,000 will be satisfied by the issue and allotment by the Company to the Vendor or its nominee(s) the Consideration Shares at Completion.

The Consideration Shares will, upon issue and fully paid, rank pari passu in all respects with all the existing Shares then in issue. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Payment terms, compensation of the shortfall to the Total Net Profits or adjustment to the consideration

Immediately upon such issue of the Consideration Shares, the share certificate(s), the instruments of transfer and contract notes executed in blank by the Vendor or its nominee(s) in respect of the Consideration Shares shall be deposited with the Escrow Agent until the Payment Date. The Vendor or its nominee(s) will be entitled to exercise voting rights attaching to, and receive

any dividends (including scrip dividend), rights issue, bonus issue and distribution in specie in respect of, all of the Consideration Shares prior to the Payment Date. Any dividends (including scrip dividend), rights issue, bonus issue and distribution in specie received in respect of the Consideration Shares will also be subject to the escrow arrangement with the Escrow Agent.

If the Target Group shall fail to meet the Total Net Profits in the sum of HK\$69,000,000 by 31 December 2017, the Vendor shall have the option either.

(i) to compensate the Company on the shortfall to the Total Net Profits in cash based on the following formula:

$$\text{Amount of compensation (HK\$)} = (\text{HK\$69,000,000} - \text{Actual Net Profits}) \times 2$$

Note: The multiple 2 represents the price-to-earnings ratio derived by reference to the value of the Consideration Shares over the Total Net Profits

(ii) to have the actual number of the Consideration Shares to be released to the Vendor or its nominee(s) by the Escrow Agent on the Payment Date downward adjusted in accordance with the following formula:

$$\text{Adjusted number of Consideration Shares} = \frac{\text{Actual Net Profits}}{\text{HK\$69,000,000}} \times 1,623,529,411^{(Note)}$$

Note: If prior to the Payment Date, there occurs a subdivision or consolidation of the Shares, the number of the Consideration Shares shall become such number of Shares in the capital of the Company which are derived from those 1,623,529,411 Shares following such subdivision or consolidation of the Shares.

If the Vendor shall fail to make the election of either of the above option (i) or (ii) within 3 months from the date of release of the audited financial statements of the Target Group or by 31 May 2018, whichever is earlier, the Company shall downward adjust the number of Consideration Shares in accordance with the formula set out in option (ii) above and release only the adjusted number of the Consideration Shares to the Vendor or its nominee(s).

The Vendor or its nominee(s) shall only be entitled to receive such amounts of dividends (including scrip dividend), rights issue, bonus issue and distributions attributable to the actual number of Consideration Shares released to the Vendor or its nominee(s).

If the profit after tax as revealed from any consolidated audited financial statement of the Target Group prior to the financial year ending 31 December 2017 shall reach the sum of HK\$69,000,000, the Escrow Agent shall release the share certificate(s), the instruments of transfer and contract notes of the Consideration Shares together with the dividends (including scrip dividend), rights issue, bonus issue and distribution in specie received prior to the Payment Date to the Vendor or its nominee(s).

The excess of the Consideration Shares which are not released to the Vendor or its nominee(s) as a result of the downward adjustment in accordance with the above formula will either be cancelled in accordance with the applicable laws with no cash or other distribution made to the Vendor or its nominee(s), or dealt with in such way including sale of such Consideration Shares in excess as may be permitted by the law by the Company with no cash or other distribution made to the Vendor or its nominee(s).

Moratorium and trading restrictions

As long as the Consideration Shares are under the escrow arrangement with the Escrow Agent, the Vendor or its nominee(s), as the case may be, being the registered owner(s) of the Consideration Shares may not sell, transfer, dispose, charge, mortgage, pledge or otherwise deal with, either directly or indirectly, any of the Consideration Shares.

Consideration Shares

On the basis that the issued share capital of the Company comprises 6,549,040,939 Shares as at the date of this announcement, the Consideration Shares represent

- (i) approximately 24.79% of the issued share capital of the company as at the date of this announcement; and
- (ii) approximately 19.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Issue price of Consideration Shares

The Consideration Shares will be issued and allotted at an issue price of HK\$0.085 which was determined with reference to the then market price of the Shares at the time of entering into the Agreement. The issued price represents:

- (i) a discount of approximately 6.59% to the closing price of the Shares of HK\$0.091 as quoted on the Stock Exchange as at the Last Trading Day;

- (ii) a discount of approximately 5.97% to the average closing price of the Shares of approximately HK\$0.0904 as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 7.50% to the average closing price of the Shares of approximately HK\$0.0919 as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day.

Based on the closing price of the Shares of HK\$0.091 as quoted on the Stock Exchange as at the Last Trading Day, the Consideration Shares would have a total market value of approximately HK\$147,741,176.40.

Basis of the Consideration

The consideration and also the issue price of HK\$0.085 per Consideration Share was arrived at based on normal commercial terms and after arm's length negotiations between the parties to the Agreement and by reference to

- (i) the joint and several warranty and guarantee by the Vendor and the Guarantor to the Purchaser that the Total Net Profits shall not be less than HK\$69,000,000 for the three financial years ended 31 December 2015, 2016 and 2017; and
- (ii) the Project Company is the exclusive distributor of the Products bearing the trademarks of GIRARD-PERREGAUX and JEANRICHARD in the territories of the mainland China, Macau, Hong Kong and Taiwan (travel retail business comprising DFS Groups Limited excepted).

The Board considers that the consideration for the Acquisition and the issue price of HK\$0.085 per Consideration Shares is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Conditions precedent

Completion of the Agreement is conditional upon the following conditions precedent:

- (a) the Purchaser having completed and satisfied in its absolute discretion with the results of the Due Diligence Investigation;
- (b) the Purchaser having received and satisfied in its absolute discretion (in substance and form) a legal opinion issued by a firm of lawyers qualified to practise in the British Virgin Islands covering matters including, among other things, (i) the Target Company and the Vendor having been duly

established and validly subsisting, (ii) updated lists of directors and shareholders of the Target Company and the Vendor, and (iii) such other aspect of the laws of the British Virgin Islands as the Purchaser may consider appropriate or relevant to the transactions contemplated by the Agreement;

- (c) the approval by the Shareholders of the Company (or, as the case may be, the independent Shareholders of the Company) at the EGM of the Agreement and the transactions contemplated hereby (including without limitation the issue of the Consideration Shares) and all other consents and acts required under the Listing Rules having been obtained and completed;
- (d) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares;
- (e) if required, all approvals, consents, authorisations and licences (so far as are necessary) in relation to the transactions contemplated under the Agreement having been obtained from the relevant governmental authorities;
- (f) the Purchaser being satisfied in its absolute discretion, from the date of the Agreement and at any time before Completion, that the Warranties remain true and accurate in all material respects, not misleading or in breach in any material respect and that no events have suggested that there were any breach in any material respect of any Warranties or other provisions of the Agreement by the Vendor; and
- (g) the Purchaser being satisfied in its absolute discretion, from the date of the Agreement to Completion, there has not been any Material Adverse Change in respect of any member of the Target Group.

The Vendor shall use its best endeavours to satisfy the above conditions (except conditions (a), (c) and (d)) whereas the Purchaser shall use its reasonable endeavours to satisfy the above conditions (a), (c) and (d) at any time on or before 5 p.m. on the Long Stop Date.

The Purchaser may, at its absolute discretion at any time, waive in writing any of the above conditions (except conditions (c) and (d)). If all the above conditions have not been satisfied or waived by 5 p.m. on the Long Stop Date then the Agreement shall lapse and has no further effect and the parties shall be released from all obligations under it.

Completion

Subject to the satisfaction or waiver of the above conditions, Completion shall take place at 4 p.m. on the Completion Date or at such other time as may be agreed between the parties to the Agreement.

Upon Completion, the Group will own the entire issued share capital of the Target Company, the Target Company and the Project Company will become subsidiaries of the Company.

Profits and other guarantee

In consideration of the Purchaser agreeing to purchase the Sale Share upon and subject to the terms and conditions contained in the Agreement, the Vendor and the Guarantor jointly and severally warrant and guarantee to the Purchaser that the Total Net Profits shall not be less than HK\$69,000,000 for the three financial years ended 31 December 2015, 2016 and 2017.

If the Target Group fails to meet the Total Net Profits in the sum of HK\$69,000,000 by 31 December 2017, the Vendor shall either (i) compensate the Group on the shortfall to the Total Net Profits in cash based on the formula as referred to in the paragraph headed "*Payment term, compensation of the shortfall to the Total Net Profits or adjustment to the consideration*"; or (ii) to have the number of Consideration Shares issued and allotted to the Vendor or its nominee(s) downward adjusted. For detail of the adjustment mechanism, please refer to the paragraph headed "*Payment term, compensation of the shortfall to the Total Net Profits or adjustment to the consideration*".

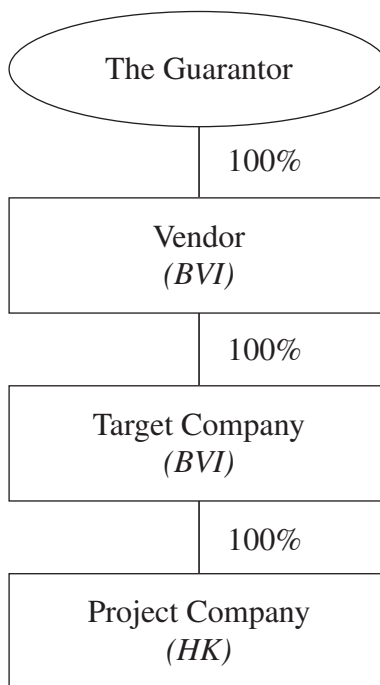
The Guarantor has also irrevocably, unconditionally and absolutely guaranteed to the Purchaser the full, due and punctual performance of all the obligations of the Vendor under or pursuant to the Agreement and, in the case of failure by the Vendor, fully, duly or punctually to perform such obligations, shall itself forthwith on demand perform such obligations with the Purchaser that the Guarantor will perform such obligations on the Vendor's behalf and shall indemnify and keep indemnified on demand the Purchaser from and against any and all losses, reasonable costs and expenses which it may sustain, incur or suffer by reason of any default or delay on the part of the Vendor in the performance of the said obligations and fulfillments of the said Warranties.

INFORMATION ON THE TARGET GROUP

Corporate structure

As at the date of this announcement, the Target Company has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each, of which 10,000 shares having been issued to and is fully paid up by the Vendor.

The corporate structure of the Target Company as at the date of this announcement is as follows:



The Target Company is a limited liability company incorporated in the BVI and an investment holding company wholly-owned by the Vendor as at the date of this announcement.

The Project Company is the exclusive distributor of the Products bearing the trademark of GIRARD-PERREGAUX and JEANRICHARD through its distributors in the territories of the mainland China, Macau, Hong Kong and Taiwan (travel retail business comprising DFS Groups Limited excepted).

Financial information

As the Target Company was newly incorporated on 15 January 2014, and being an investment holding company, no financial statement has been prepared.

The Project Company was incorporated on 6 March 2014, based on the unaudited financial statement of the Project Company for the period from 6 March 2014 to 31 August 2014, the profit before taxation and extraordinary items of the Project Company for this period is HK\$197,400.68 and its corresponding net asset value is HK\$207,400.68.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following chart depicts the effects of the issue of the Consideration Shares on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the date of this announcement and assuming Completion having taken place and no adjustment to the Consideration Shares, without taking into account issue of new Shares, if any, after the date of this announcement and prior to Completion:

	As at the date of this announcement		Upon Completion	
	Number of Shares	%	Number of Shares	%
Hengdeli Holdings Limited	1,000,000,000 (Note 1)	15.27	1,000,000,000 (Note 1)	12.23
The Guarantor	621,878,316 (Note 2)	9.5	2,245,407,727 (Notes 2 & 3)	27.47
Choy Shiu Tim	406,500,000	6.2	406,500,000	4.97
Public Shareholders	<u>4,520,662,623</u>	<u>69.03</u>	<u>4,520,662,623</u>	<u>55.33</u>
Total:	<u>6,549,040,939</u>	<u>100</u>	<u>8,172,570,350</u>	<u>100</u>

Notes:

- (1) The 1,000,000,000 Shares are held by Alpha Key Investments Limited, which is wholly-owned by Hengdeli Holdings Limited. Thus, Hengdeli Holdings Limited is deemed to be interested in the 1,000,000,000 Shares held by Alpha Key Investments Limited pursuant to the SFO.
- (2) The 621,878,316 Shares are held by the Vendor, which is wholly-owned by the Guarantor. Thus, the Guarantor is deemed to be interested in the 621,878,316 Shares held by the Vendor pursuant to the SFO.
- (3) If prior to the Payment Date, there occurs a subdivision or consolidation of the Shares, the number of the Consideration Shares shall become such number of Shares in the capital of the Company which is derived from those 1,623,529,411 Shares following such subdivision or consolidation of the Shares.
- (4) The percentages are subject to rounding error.

REASONS FOR THE ACQUISITION

The principal activities of the Company comprise the manufacture, sale, trading, distribution, processing and retailing of jewellery production in the PRC. The Directors considered that the Acquisition represented a good opportunity for the Company to expand its retail business which could create a platform for business cooperation with international reputable brands of timepieces and accessories, jewellery items and other luxury goods, and help broaden the source of income of the Company. The Board is of the view that the Project Company, being the exclusive distributor of the Products bearing the trademarks of GIRARD-PERREGAUX and JEANRICHARD in the territories of the mainland China, Macau, Hong Kong and Taiwan (travel retail business comprising DFS Group Limited excepted), has much potential for the Company's business expansion in these regions.

The Directors believe that the Acquisition is in line with the business plan of the Company and, couple with the expertise of the Group in the sale, trading, distribution, processing and retailing of timepieces, jewellery and luxury goods, the Acquisition is in the best interest of the Company and the terms of the Agreement are in normal commercial terms, which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

As the Acquisition exceeds 5% but does not exceed 25% of one or more of the applicable percentage ratios (as defined in the Listing Rules), the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules.

The Consideration Shares will be issued and allotted under a specific mandate to be sought at the EGM. The Board will seek approval from the Shareholders at the EGM for the grant of a specific mandate for the issue and allotment of the Consideration Shares.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares and a circular containing, among other things, further details of the Agreement and a notice convening the EGM to consider and (if thought fit) to approve, among other matters, the Agreement and the transactions contemplated thereunder (including the grant of the specific mandate for the issue and allotment of the Consideration Shares) will be despatched to the Shareholders in accordance with the Listing Rules.

DEFINITIONS

“Actual Net Profits”	the total net profits earned by the Target Group after tax on a consolidated basis for the financial years ending 31 December 2015, 2016 and 2017
“Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company under the Agreement
“Agreement”	the agreement dated 6 October 2014 entered into between the Company as purchaser, the Vendor as vendor, and the Guarantor as guarantor in relation to the sale and purchase of the entire issued share capital of the Target Company
“associates”	as defined in the Listing Rules
“Board”	the board of Directors
“Business Days”	a day (not a Saturday) on which licensed banks in Hong Kong are generally open for business during their normal business hours
“BVI”	the British Virgin Islands
“Company”	Ming Fung Jewellery Group Limited, a company incorporated under the laws of the Cayman Islands, the Shares of which are listed on the Stock Exchange (Stock Code: 860)
“Completion”	completion of the sale and purchase of the Sale Share pursuant to the Agreement
“Completion Date”	the date which is the fifth (5th) Business Day after the date on which the conditions precedent under the Agreement are satisfied or waived or such other date as the Vendor and the Purchaser may agree in writing

“Consideration Shares”	1,623,529,411 new Shares to be allotted and issued to the Vendor or its nominee(s) as settlement of the whole consideration under the Agreement, provided that if prior to the Payment Date, there occurs a subdivision or consolidation of the Shares, any reference to “Consideration Shares” in the Agreement shall be to such number of Shares in the capital of the Company which are derived from those 1,623,529,411 Shares following such subdivision or consolidation of the Shares, and “Consideration Share” means any one of them
“Directors”	directors of the Company
“Due Diligence Investigation”	the legal, financial, business and other due diligence investigation in respect of the assets, liabilities, businesses, prospects and other affairs of the Target Group as the Purchaser may in its sole and absolute discretion consider necessary or desirable
“EGM”	Extraordinary general meeting of the Company
“Escrow Agent”	the escrow agent to be engaged by the Company and the Vendor at Completion in respect of the escrow arrangement of the share certificate(s), the blank instruments of transfer and contract notes executed by the Vendor or its nominee(s) in respect of the Consideration Shares
“Group”	the Company and its subsidiaries
“Guarantor”	Zhang Jinbing (張金兵)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Last Trading Day”	3 October 2014, the trading day immediately preceding the date of the Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Long Stop Date”	31 January 2015 or such later date to be agreed between the Purchaser and the Vendor in writing
“Macau”	the Macau Special Administrative Region of the PRC
“Material Adverse Change”	any change which has a material and adverse effect on the financial position, business or operations of the Target Group as a whole
“Payment Date”	the date on which the Consideration Shares are released to the Vendor or its nominee(s) in accordance with the terms of the Agreement
“PRC”	the People’s Republic of China for the purposes of this announcement, excludes Taiwan, the Macau and Hong Kong
“Products”	timepieces and accessories, jewellery products, writing instruments, eyewear frames, clothing and leather goods and other products coherent with the strategic exclusivity of the trademarks of GIRARD-PERREGAUX or JEANRICHARD
“Project Company”	SWISS MECHANICAL TIME (HONG KONG) LIMITED (瑞時鐘錶(香港)有限公司), a limited liability company incorporated in Hong Kong and wholly-owned by the Target Company as at the date of this announcement
“Sale Share”	the issued 10,000 ordinary share of a par value of US\$1 each in the capital of the Target Company legally and beneficially owned and held by and registered in the name of the Vendor
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	Shareholders of the Company
“Shareholders Loan”	the Shareholders loan due by any member of the Target Group to the Vendor that remains outstanding as at the Completion Date

“Share(s)”	ordinary share(s) of HK\$0.01 each of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Sinoforce Group Limited, a company incorporated under the laws of the BVI and the entire issued share capital of which is held by the Vendor as at the date of this announcement
“Target Group”	the Target Company and the Project Company and its subsidiaries for the time being and from time to time, and the expressions “ member of the Target Group ” and “ Target Group Company ” shall be construed accordingly
“Total Net Profits”	the total net profits of the Target Group after tax calculated on a consolidated basis
“Vendor”	Prestige Rich Holdings Limited, a company incorporated under the laws of the British Virgin Islands
“Warranties”	the warranties, representatives and undertakings given by the Vendor under the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

By order of the board
Ming Fung Jewellery Group Limited
Wong Chi Ming, Jeffry
Chairman

Hong Kong, 6 October 2014

As at the date hereof, the Company’s executive directors are Mr. Wong Chi Ming, Jeffry and Mr. Yu Fei, Philip and independent non-executive directors are Ms. Chu Wai Fan, Mr. Tam Ping Kuen, Daniel and Mr. Jiang Chao.