HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

THE AGREEMENT

The Board is pleased to announce that after trading hours of the Stock Exchange on 30 December 2016, the Vendors (wholly-owned subsidiaries of the Company) and Mr. Zhang entered into the Agreement, pursuant to which (i) Vendor A has conditionally agreed to sell the Xinyu Sale Shares; (ii) Vendor B has conditionally agreed to sell the Harvest Max Sale Shares; and (iii) Mr. Zhang has conditionally agreed to purchase the Xinyu Sale Shares and the Harvest Max Sale Shares at an aggregate cash consideration of approximately RMB3.5 billion (subject to adjustment).

After Completion, the Remaining Group will be principally engaged in (i) retail sale of mid to top-end internationally renowned watch brands in Hong Kong and Taiwan; and (ii) manufacturing of watch accessories.

SPECIAL DIVIDEND

Subject to approval of the Shareholders at the EGM and Completion taking place, the Board intends to declare the Special Dividend of not less than HK$0.20 per Share to the Shareholders whose names appear on the register of members of the Company on a record date to be determined. A further announcement will be made by the Company in this regard as and when appropriate.

LISTING RULES IMPLICATIONS

The Disposal constitutes a very substantial disposal for the Company which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Mr. Zhang is a connected person of the Company. As such, the Disposal also constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling has been established by the Company to provide recommendation to the Independent Shareholders on the terms of the Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder. A circular containing details of the Agreement, the financial information of the Disposal Group and the Remaining Group, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, a notice convening the EGM and other information as required under the Listing Rules will be despatched to the Shareholders on or before 10 February 2017 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

The Board is pleased to announce that after trading hours of the Stock Exchange on 30 December 2016, the Vendors (wholly-owned subsidiaries of the Company) and Mr. Zhang entered into the Agreement, pursuant to which (i) Vendor A has conditionally agreed to sell the Xinyu Sale Shares; (ii) Vendor B has conditionally agreed to sell the Harvest Max Sale Shares; and (iii) Mr. Zhang has conditionally agreed to purchase the Xinyu Sale Shares and the Harvest Max Sale Shares at an aggregate cash consideration of approximately RMB3.5 billion (subject to adjustment). Set out below are the principal terms of the Agreement.

THE AGREEMENT

Date

30 December 2016

Parties

(i) Mr. Zhang, as purchaser;

(ii) Vendor A, as one of the vendors; and

(iii) Vendor B, as one of the vendors.

As at the date of this announcement, Mr. Zhang, being the Chairman and Executive Director of the Company, is indirectly interested in 1,581,340,501 Shares, representing approximately 33.08% of the existing issued share capital of the Company. Mr. Zhang is a connected person of the Company.

Assets to be disposed of

The assets to be disposed of by the Vendors comprise the Xinyu Sale Shares and the Harvest Max Sale Shares. The Xinyu Sale Shares represent the entire issued share capital of Xinyu as at the date of the Agreement. The Harvest Max Sale Shares represent approximately 75.54% of the issued share capital of Harvest Max as at the date of the Agreement. The Sale Shares will be sold free from all encumbrances and together with all rights attaching thereto from 1 January 2017, other than the Dividend Payout as described in the paragraph headed “Conditions precedent” below.

Details of the Xinyu Group and the Harvest Max Group are set out in the section headed "Information on the Disposal Group" below.

Mr. Zhang shall not be obliged to purchase, and the Vendors shall not be obliged to sell, any of the Sale Shares unless the sale and purchase of the Xinyu Sale Shares and the Harvest Max Sale Shares are completed simultaneously.

Conditions precedent

Completion is conditional upon the fulfilment (or waiver, as the case may be) of the following conditions:

(i) the passing of the resolution by the Independent Shareholders at the EGM approving the Agreement and transactions contemplated thereunder;

(ii) all necessary consents and approvals required to be obtained on the respective part of Mr. Zhang, the Vendors and the Company in respect of the Agreement and the transactions contemplated thereunder having been obtained;

(iii) the Xinyu Group having paid cash dividend of not less than RMB1.6 billion to the Company (the "**Dividend Payout**");

(iv) the warranties given by Mr. Zhang under the Agreement remaining true, accurate and not misleading at Completion; and

(v) the full settlement of net amounts due by the Disposal Group to the Remaining Group.

Save for condition (iv) above which may be waived by the Vendors, none of the conditions set out above can be waived by any party under the Agreement.

If any of the above conditions is not fulfilled or waived (as the case may be) on or before 30 June 2017 (or such later date as the parties to the Agreement may agree in writing), the Agreement shall terminate and neither party to the Agreement shall have any further obligations towards the other thereunder except for antecedent breaches (if any).

Consideration

The Consideration will be determined with reference to, among other things, the audited net asset value of the Disposal Group attributable to the shareholders of the Company as at 31 December 2016 and the actual amount of Dividend Payout. Based on the unaudited net asset value of the Disposal Group attributable to the shareholders of the Company of approximately RMB5.1 billion as at 30 June 2016 and the minimum Dividend Payout of RMB1.6 billion, the Consideration is estimated to be approximately RMB3.5 billion.

The Consideration shall be paid by Mr. Zhang in cash within 10 Business Days after the fulfilment of condition precedent numbered (ii) as described in the paragraph headed "Conditions precedent" above.

Completion

Completion shall take place on the 15th Business Day after all the conditions have been fulfilled (or waived, as the case may be) or such other date as may be agreed by the parties to the Agreement.

After the Disposal, Xinyu and Harvest Max will cease to be subsidiaries of the Company and their financial results will no longer be consolidated into the financial statements of the Group.

INFORMATION ON THE DISPOSAL GROUP

The Disposal Group comprises the Xinyu Group and the Harvest Max Group.

The Xinyu Group

As at the date of the Agreement, Vendor A holds the entire issued share capital of Xinyu. The Xinyu Group is principally engaged in (i) retail sale of mid to high-end internationally renowned watch brands in the PRC; (ii) wholesale of mid-end internationally renowned watch brands in the PRC; and (iii) provision of after-sale service.

According to the unaudited consolidated financial statements of the Xinyu Group which were prepared under Hong Kong Financial Reporting Standards, the Xinyu Group recorded unaudited net assets attributable to the shareholders of the Company of approximately RMB4.9 billion as at 30 June 2016. Set out below are the unaudited consolidated results of the Xinyu Group prepared under Hong Kong Financial Reporting Standards:

	For the year ended 31 December	
	2014	**2015**
	RMB'000	*RMB'000*
Profit before taxation	630,442	402,798
Profit after taxation	462,887	300,198

The Harvest Max Group

As the date of the Agreement, Vendor B holds approximately 75.54% equity interest in Harvest Max. The Harvest Max Group is principally engaged in the retail of jewellery, low-to-mid-end watch brands and general merchandises including but not limited to electronic appliances and cosmetics products in Hong Kong.

According to the unaudited consolidated financial statements of the Harvest Max Group which were prepared under Hong Kong Financial Reporting Standards, the Harvest Max Group recorded unaudited net assets attributable to the shareholders of the Company of approximately RMB213 million as at 30 June 2016. Set out below are the unaudited consolidated results of the Harvest Max Group prepared under Hong Kong Financial Reporting Standards:

	For the year ended 31 December	
	2014	**2015**
	RMB'000	*RMB'000*
Profit/(loss) before taxation	47,745	(38,673)
Profit/(loss) after taxation	38,268	(42,132)

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in (i) retail sale of mid to top-end internationally renowned watch brands in the PRC, Hong Kong and Taiwan; (ii) wholesale of mid-end internationally renowned watch brands in the PRC; (iii) provision of after-sale service; and (iv) manufacturing of watch accessories.

As the Group's retail business in the PRC and the wholesale business are capital intensive in nature, they have locked up a significant amount of capital since its inauguration. Since 2005, the Group has invested more than RMB3.0 billion in the Xinyu Group by way of capital injection and shareholder's loan for the operation and development of the retail business and the wholesale business. The shareholder's loan was principally financed by the Group's high yield bonds which carry higher interest rates. Having considered the depreciation of Renminbi against United States dollars, the austerity measures that severely impacted the economic environment and financing environment in the PRC, and the slowdown in growth of the Xinyu Group in recent years, the Directors consider that the financial performance of the Xinyu Group may not justify the currency risk exposure and significant finance costs borne by the Group, and therefore are of the view that it is a prime time to unlock the value of the Disposal Group before the further decline in the financial performance and asset quality of the Disposal Group and deterioration in the depreciation of Renminbi in the near term. The Directors believe that after unlocking the value of and releasing the capital locked up for the development of the Disposal Group, the Remaining Group is able to capitalise on its long-established history and reputation and reposition itself as a luxurious niche brand in the market focusing on the high net worth customers in Hong Kong, Taiwan, or other overseas markets with high consumption power.

Under the terms of the bank loans of the Group, the Group is required to comply with certain restrictive financial covenants including but not limited to maintaining an interest coverage ratio between earnings before interest, tax and depreciation and amortization and interest expense of at least 3 times, which is stringent in market. Although the Group is capable of meeting the interest coverage requirement in 2015, the Group would be under tremendous pressure to maintain the interest coverage covenants once the business environment adversely changes. The Directors consider that the gradual rise in interest rate in the United States and the possible continuous depreciation in Renminbi in near future would further increase the interest burden and the currency risk of the Group. The Directors consider that the Disposal would mean a strategic move to a healthier financed business model in which the Remaining Group would no longer be required to finance its business by way of foreign currency borrowings which carry higher and floating interest rates and the Remaining Group would become almost debt free upon Completion.

It is expected that a loss on Disposal of approximately RMB490 million would be recorded, which is mainly attributable to (i) withholding tax of approximately RMB138 million in relation to the Disposal; (ii) impairment of goodwill of approximately RMB272 million relating to the Harvest Max Group; and (iii) withholding tax of approximately RMB80 million in connection with the Dividend Payout of RMB1.6 billion. In addition, the cumulative amount of exchange differences relating to the Disposal Group of approximately RMB64 million, which were recognised in other comprehensive income as at 30 June 2016, will be reclassified from equity to profit or loss upon Completion. It should be noted that the above amounts are shown for reference only and the amounts eventually to be recognised in the consolidated financial statements of the Company depends on the financial position of the Disposal Group as at 31 December 2016 and upon the Disposal Group ceasing to be subsidiaries of the Company. Excluding the effect from the withholding tax as illustrated in (i) and (iii) above, the loss on Disposal would be non-cash in nature and had no effect on the Remaining Group's business operations. The Directors consider it is fair and reasonable for the Remaining Group to bear the withholding tax in relation to the Disposal, given that the withholding tax is charged on the Remaining Group's investment return on the Xinyu Group. Despite the Disposal will result in a loss to the Company, the Directors believe that the Remaining Group will have a healthier financial position and bring continuous benefit to the Shareholders. After taking into account the fact that (i) the Consideration represents an implied price to book ratio of one; and (ii) the Disposal bears genuine commercial justifications and benefits to the Company as explained above, the Directors consider the Consideration is fair and reasonable.

In view of the above, the Directors consider the terms of the Agreement are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole and facilitate a strategic move to a more healthily financed business model of the Group in a long run.

As to the possibility of disposing the Disposal Group to an independent party instead of Mr. Zhang, the Directors believed that it would be difficult for the Company to solicit independent potential buyer(s) for the Disposal Group and there would be no certainty of success. The Disposal Group is the largest watches retailer and wholesaler in the PRC. The Company believes that no active market player would have sufficient financial resources to acquire the business of the Disposal Group, after taking into account the business scale of the Disposal Group. The Company also believes that financial investors, who do not have well-established relationship with the brand-owners or distributors, are reluctant to acquire the business of the Disposal Group.

FUTURE BUSINESS PLAN OF THE REMAINING GROUP

After Completion, the Remaining Group will be principally engaged in (i) retail sale of mid to top-end internationally renowned watch brands in Hong Kong and Taiwan; and (ii) manufacturing of watch accessories. The Directors believe that the Disposal would equip the Remaining Group with sufficient working capital and an almost debt-free status which, on the track of gradual recovery of the retail market with the number of visitor arrivals and retail sales value in Hong Kong starting to pick up since the second half of this year, would enable the Remaining Group to seize larger market share and improve competitiveness among its competitors.

In September 2016, the Group entered into a sale and purchase agreement with an independent third party in relation to the acquisition of a property in Taipei City, Taiwan. The aforesaid acquisition was completed in December 2016. Following completion, the Remaining Group will relocate its existing "Elegant" store to this property so as to reduce rental cost and enjoy potential capital appreciation. Besides, the Remaining Group will have a permanent establishment of its flagship shop in Taiwan.

The Group is also currently in discussion with a luxury watch retailer based in the United States in relation to a possible cooperation through acquisition. It is expected that such cooperation will help the Remaining Group to develop its retail business in United States market. Discussion is in progress although no legally-binding agreement has been entered into by the Group.

As regards the manufacturing of watch accessories business, the Remaining Group will continue to identify suitable investment opportunities to expand this business segment through mergers and acquisitions. The Remaining Group also plans to establish manufacturing facilities in Suzhou City, the PRC to enhance its production capacity in late 2017.

INTENDED USE OF PROCEEDS

Having taken into account the unaudited net asset value of the Disposal Group of RMB5.1 billion as at 30 June 2016 and the minimum Dividend Payout of approximately RMB1.6 billion, it is expected that the Consideration will be approximately RMB3.5 billion. Together with the settlement of net amounts due by the Disposal Group to the Remaining Group of approximately RMB0.9 billion, the Company will receive an aggregate net cash inflow of approximately RMB5.8 billion (net of estimated withholding tax of approximately RMB0.2 billion and direct expenses attributable to the Disposal of approximately RMB7 million). The Company intends to apply the net cash inflow of approximately RMB5.8 billion generated from the Disposal as to:

(i) approximately 55% or RMB3.2 billion for repayment of the debts of the Remaining Group;

(ii) not less than approximately 14% or RMB0.8 billion for distribution of Special Dividend to the Shareholders (representing Special Dividend of not less than HK$0.20 per Share based on the number of outstanding Shares as at the date of this announcement); and

(iii) the remaining balance for general working capital and business development of the Remaining Group, including but not limited to enhancing the market standing and presence of the retail business in Hong Kong and Taiwan and expanding the retail business of the Remaining Group in overseas markets.

It should be noted that the actual cash inflow to be generated from the Disposal and received by the Company will depend on the financial position of the Disposal Group as at 31 December 2016 and the exchange rates between Renminbi and Hong Kong dollars at the material time.

SPECIAL DIVIDEND

Subject to approval of the Shareholders at the EGM and Completion taking place, the Board intends to declare the Special Dividend of not less than HK$0.20 per Share to the Shareholders whose names appear on the register of members of the Company on a record date to be determined. A further announcement will be made by the Company in this regard as and when appropriate.

LISTING RULES IMPLICATIONS

The Disposal constitutes a very substantial disposal for the Company which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. As at the date of this announcement, Mr. Zhang, being the Chairman and Executive Director of the Company, is indirectly interested in 1,581,340,501 Shares, representing approximately 33.08% of the existing issued share capital of the Company. Mr. Zhang is a connected person of the Company. As such, the Disposal also constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Zhang had abstained from voting on the Board resolution approving the Disposal.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling, has been established by the Company to provide recommendation to the Independent Shareholders on the terms of the Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder. A circular containing details of the Agreement, the financial information of the Disposal Group and the Remaining Group, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, a notice convening the EGM and other information as required under the Listing Rules will be despatched to the Shareholders on or before 10 February 2017 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

DEFINITIONS

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

"Agreement"	the conditional sale and purchase agreement dated 30 December 2016 entered into between the Vendors and Mr. Zhang in relation to the Disposal
"associate(s)"	has the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturdays, Sundays, public holidays and any day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business
"Company"	Hengdeli Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares (Stock Code: 3389) of which are listed on the Main Board of the Stock Exchange

"Completion"	completion of the Disposal
"connected person"	has the same meaning ascribed to it under the Listing Rules
"Consideration"	consideration for the Disposal
"Directors"	directors of the Company
"Disposal"	the disposal of the Sale Shares pursuant to the Agreement
"Disposal Group"	the Xinyu Group and the Harvest Max Group
"EGM"	the extraordinary general meeting to be convened and held by the Company to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Harvest Max"	Harvest Max Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is a 75.54%-owned subsidiary of the Company prior to Completion
"Harvest Max Group"	Harvest Max and its subsidiaries
"Harvest Max Sale Shares"	28,000 shares of Harvest Max, representing approximately 75.54% equity interest in Harvest Max
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling, established to provide recommendation to the Independent Shareholders on the terms of the Agreement
"Independent Shareholders"	Shareholders, other than Mr. Zhang and his associates, who do not have any material interest in the transactions contemplated under the Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Zhang"	Mr. Zhang Yuping, the Chairman and Executive Director of the Company
"PRC"	the People's Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Remaining Group"	the Group immediately after Completion
"Sale Shares"	the Xinyu Sale Shares and the Harvest Max Sale Shares

"Share(s)"	ordinary share(s) of HK$0.005 each in the share capital of the Company
"Special Dividend"	the special cash dividend intended to be declared and paid by the Company to the Shareholders subject to approval of the Shareholders at the EGM and Completion taking place
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor A"	Xinyu Hengdeli China Limited, a company incorporated in Hong Kong with limited liability, which is an indirect wholly-owned subsidiary of the Company
"Vendor B"	Hengdeli Giant Dragon Limited, a company incorporated in the British Virgin Islands with limited liability, which is a direct wholly-owned subsidiary of the Company
"Vendors"	together, Vendor A and Vendor B
"Xinyu"	上海新宇鐘表服務有限公司 (translated as Xinyu Fine Watch Service Co., Ltd. for illustration only), a company established in the PRC, which is an indirect wholly-owned subsidiary of the Company prior to Completion
"Xinyu Group"	Xinyu and its subsidiaries
"Xinyu Sale Shares"	the entire issued share capital of Xinyu
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

By order of the Board
Hengdeli Holdings Limited
Zhang Yuping
Chairman

Hong Kong, 30 December 2016

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan; the non-executive Directors are Mr. Shi Zhongyang and Ms. Chen Jun; and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.