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## **WO KEE HONG (HOLDINGS) LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 720)**

### **DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 60% INTEREST IN A COMPANY ENGAGING IN DESIGN, TRADING AND SALE OF APPAREL BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA**

**Financial adviser to the Company**



On 16 May 2008, Famous Name, a wholly-owned subsidiary of the Company, entered into the Share Acquisition Agreement with the Vendor, the Vendor Guarantor and the Company pursuant to which Famous Name agrees to acquire 60% of the issued share capital in Creative Pacific at a consideration of HK\$19,500,000, subject to adjustments to be made based on the aggregate audited net profits of the WFOEs for each of the First Period and the Second Period as described below. Creative Pacific is interested in the entire equity interests of the WFOEs which are principally engaged in the business of the design, trading and sale of apparel in the PRC.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendor, its ultimate beneficial owners and the Vendor Guarantor is a third party independent of and not connected with the Company or its connected persons.

The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. A circular containing, amongst others, further details of the Acquisition, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

#### **THE SHARE ACQUISITION AGREEMENT DATED 16 MAY 2008**

##### **Parties**

**Purchaser:** Famous Name, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

Vendor: Victory Globe International Limited, a company incorporated in the British Virgin Islands with limited liability

Vendor Guarantor: Chan Chun Wa, Vincent

Purchaser Guarantor: the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendor, its ultimate beneficial owners and the Vendor Guarantor is a third party independent of and not connected with the Company or its connected persons.

### **Assets to be acquired**

The Sale Shares, being 60% of the issued share capital of Creative Pacific. There is no restriction on subsequent disposal of the Sale Shares.

### **Consideration and interest**

The consideration of HK\$19,500,000 (subject to adjustments described below) is payable by Famous Name in cash in the following manner:

- (a) deposit of HK\$4,875,000 be paid upon signing of the Share Acquisition Agreement;
- (b) HK\$4,875,000 be paid upon Completion; and
- (c) the balance of HK\$9,750,000 (the "**Retained Balance**") be retained by Famous Name and shall be paid in two instalments as follows:
  - (i) HK\$6,825,000 (the "**First Instalment**"), subject to set off against adjustment and deduction under the terms of the Share Acquisition Agreement and described in the section headed "Adjustment to the Consideration" below, be paid before or on the tenth business day after the issue of Famous Name's statement on, amongst others, the Adjusted First Year Net Profit (as defined below) and amount to be set off against the First Instalment based on the NCS Audit 2009 and the NCY Audit 2009; and
  - (ii) HK\$2,925,000 (the "**Second Instalment**"), subject to set off against adjustment and deduction under the terms of the Share Acquisition Agreement and described in the section headed "Adjustment to the Consideration" below, be paid before or on the tenth business day after the issue of Famous Name's statement on, amongst others, amount to be set off against the Second Instalment based on the NCS Audit 2010 and the NCY Audit 2010.

Famous Name shall pay the Vendor interest on the Retained Balance on the following terms and in the following manner:

- (a) the Retained Balance shall bear interest for the period from the date of Completion up to the actual date of payment of the First Instalment, or balance thereof after the set off against the adjustment and deduction as aforesaid (or if the balance of the First Instalment after the set off is zero, up to 31 May 2009), at the rate of 4% per annum;

- (b) the Second Instalment shall bear interest for the period from the day immediately following the actual date of payment of the First Instalment, or balance thereof after the set off against the adjustment and deduction as aforesaid, up to the actual date of payment of the Second Instalment, or balance thereof after the set off against the adjustment and deduction as aforesaid (or if the balance of the Second Instalment after the set off is zero, up to 31 May 2010), at the rate of 4% per annum;
- (c) such interest shall accrue from day to day and shall be calculated on the basis of the actual number of days elapsed and a 365 day year, including the first day of the period during which it accrues but excluding the last; and
- (d) interest payment shall be made by Famous Name every six months from the date of Completion.

The aggregate consideration including the interests on the Retained Balance (on the basis that interest on the Retained Balance and the Second Instalment will be charged for 12 months respectively) and the maximum additional payment to be made by Famous Name to the Vendor pursuant to the terms of adjustment to the consideration under the Share Acquisition Agreement shall amount to HK\$31,707,000. The Consideration was determined after arm's length negotiation between the Company and the Vendor with reference to the average price to earnings ratio of approximately 12 times of the apparels retailers listed in Hong Kong. Taking into account the smaller size of business of Creative Pacific as compared with these apparels retailers and that Creative Pacific is a private company, a price to earnings ratio of 6.5 times which is based on the Guarantee Profit (as defined and set out below) has been used for determination of the Consideration. As such, the Directors are of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **Adjustment to the Consideration**

### ***Basis of adjustment***

References will be made to:

- (a) the Hong Kong Dollar equivalent (converted at the middle rate as at 31 May 2009 quoted by the People's Bank of China or the last quoted middle rate prior to 31 May 2009 if there is no such quotation on that day) of the aggregate audited net profit after tax of New Conception Shanghai and New Concept Yi Hua for the First Period as shown in the NCS Audit 2009 and the NCY Audit 2009 respectively, with addition to it the actual amount of expenses incurred and to be incurred for (i) participating the fashion show to be held in September 2008, subject to a maximum of RMB500,000; and (ii) purchasing samples for product development of 2009 Spring/Summer collection, subject to a maximum of RMB300,000 and addition to or reduction from it any amount for the purpose of eliminating the impact on the profit or loss of each of the WFOEs for the First Period arising from any accounting entry that should relate to any accounting period prior to 1 June 2008 but, for whatever reasons, was subsequently put through to the First Period (the "**Adjusted First Year Net Profit**"); and
- (b) the Hong Kong Dollar equivalent (converted at the middle rate as at 31 May 2010 quoted by the People's Bank of China or the last quoted middle rate prior to 31 May 2010 if there is no such quotation on that day) of the aggregate audited net profit before tax of New Conception Shanghai and New Concept Yi Hua for the Second Period as shown in the NCS Audit 2010 and the NCY Audit 2010 respectively (the "**Second Year Net Profit**").

### ***Profit guarantee***

The Vendor guarantees to Famous Name that each of the Adjusted First Year Net Profit and the Second Year Net Profit will not be less than HK\$5,000,000 (the “**Guarantee Profit**”).

### ***Adjustments***

- (a) If the Adjusted First Year Net Profit is less than the Guarantee Profit or if the First Year Net Profit is zero or a negative figure, the Vendor shall pay Famous Name a sum arrived at by applying the following formula (which may be set off against the First Instalment), subject to a maximum of HK\$4,875,000:

$$(\text{Guarantee Profit} - \text{First Year Net Profit}) \times 6.5 \times 60\%$$

- (b) If the First Year Net Profit is zero or a negative figure, zero will be adopted as “First Year Net Profit” in application of the formula.

- (c) If the Adjusted First Year Net Profit exceeds the Guarantee Profit, Famous Name shall pay the Vendor a sum arrived at by applying the following formula subject to a maximum of HK\$3,900,000:

$$(\text{First Year Net Profit} - \text{Guarantee Profit}) \times 6.5 \times 60\%$$

- (d) If the Second Year Net Profit is less than the Guarantee Profit or if the Second Year Net Profit is zero or a negative figure, the Vendor shall pay Famous Name a sum arrived at by applying the following formula (which may be set off against the Second Instalment), subject to a maximum of HK\$4,875,000:

$$(\text{Guarantee Profit} - \text{Second Year Net Profit}) \times 6.5 \times 60\%$$

- (e) If the Second Year Net Profit is zero or a negative figure, zero will be adopted as “Second Year Net Profit” in application of the formula.

- (f) If the Second Year Net Profit equals to or exceeds the Guarantee Profit, but the Second Year AT Net Profit equals to or is less than the Guarantee Profit, there will be no adjustment to the Consideration.

- (g) If the Second Year AT Net Profit exceeds the Guarantee Profit, Famous Name shall pay the Vendor a sum arrived at by applying the following formula subject to a maximum of HK\$7,800,000:

$$(\text{Second Year AT Net Profit} - \text{Guarantee Profit}) \times 6.5 \times 60\%$$

### ***Deduction for claims arising from the Vendor’s breach***

Famous Name will be entitled to deduct from the First Instalment, the Second Instalment, or any additional payment to be made to the Vendor pursuant to the terms of adjustment to the Consideration under the Share Acquisition Agreement and described above (the “**Additional Payments**”) any amount of claim for losses, damages, costs and expenses which Famous Name may suffer through or arising from the Vendor’s breach of its obligations, commitments, warranties, undertakings, indemnities or covenants under the Share Acquisition Agreement on the condition that Famous Name has lodged such claim with the Vendor prior to the respective due dates of such payments.

## **Conditions**

Completion is conditional upon satisfaction of the following conditions:

- (a) all the Franchise Agreements having been terminated and all franchisees under such Franchise Agreements having entered into cooperative sales agreements in the form approved by Famous Name with New Conception Shanghai;
- (b) all documents necessary for (i) causing amendments to the new articles of association of each of the WFOEs so as to allow each of them to establish a board of directors comprising three members and in the form approved by Famous Name; and (ii) appointment of new director(s) and supervisor(s) pursuant to the Share Acquisition Agreement having been signed by all relevant parties; and
- (c) Famous Name being satisfied with the results of a due diligence review on each member of the Target Group (including but not limited to their financial matters, business operations and legal affairs).

If any of the conditions shall not have been satisfied (or waived, where applicable, by Famous Name pursuant to the Share Acquisition Agreement) by 5:00 p.m. on the Long Stop Date, the Share Acquisition Agreement shall lapse and any deposit paid by Famous Name shall be refunded forthwith, and the Share Acquisition Agreement and all provisions contained except for, amongst others, provisions regarding guarantee by Vendor Guarantor and restrictions on disclosure shall, subject to the liability of any party in respect of any antecedent breach of the terms hereof, be null and void and of no further effect.

### **Guarantee by Vendor Guarantor**

The Vendor Guarantor unconditionally and irrevocably guarantees to Famous Name the due and punctual performance by the Vendor of all of its obligations under the Share Acquisition Agreement and agrees to indemnify Famous Name against all losses, damages, costs and expenses which Famous Name may suffer through or arising from any breach by the Vendor of such obligations.

### **Guarantee by Purchaser Guarantor**

The Company unconditionally and irrevocably guarantees to the Vendor the due and punctual performance by Famous Name of its obligations to pay the Retained Balance, interests thereon and the additional payments under the Share Acquisition Agreement and agrees to indemnify the Vendor against all losses, damages, costs and expenses which the Vendor may suffer through or arising from any breach by Famous Name of such obligations.

## **Completion**

Completion will take place on the second business day after satisfaction or waiver (as the case may be) of the conditions set out in the Share Acquisition Agreement, or such later date as the parties may agree in writing prior to Completion.

## SHAREHOLDER'S LOAN AND PERSONAL GUARANTEE

Upon Completion, Famous Name as the lender and Creative Pacific as the borrower will enter into a loan agreement in respect of a loan (the “**Loan**”) in the principal amount of HK\$22,000,000 at an interest rate of 12% per annum, payable on demand. As security of the Loan, Vendor Guarantor will also enter into a personal guarantee in favour of Famous Name to guarantee repayment of the Loan up to the principal amount of HK\$8,800,000 and interests thereon.

## INFORMATION ON THE TARGET GROUP

Creative Pacific is a company incorporated in Hong Kong with limited liability on 28 March 2001. Creative Pacific is an investment and trademarks holding company and is wholly-owned by the Vendor. Its major assets are the entire equity interests in the WFOEs and trademarks used by the Target Group.

New Conception Shanghai is primarily engaged in the design, marketing, wholesales and retail of men's fashion apparels and the sales of accessories such as ties, men's and traveling bags in the PRC. New Conception Shanghai is equipped with its own design, marketing, distribution and own retail capabilities. According to the Vendor, it is one of the leading men's fashion companies with over 120 retail outlets in the PRC.

New Concept Yi Hua has not commenced operation since its establishment.

According to the unaudited consolidated financial statements of Creative Pacific as at 31 December 2007, the net liabilities of Creative Pacific was approximately HK\$13,382,269 and Creative Pacific recorded unaudited consolidated net profit/(loss) before and after tax for each of the two financial years ended 31 December 2007 as follows:

	<b>For the year ended 31 December 2006 (unaudited)</b>	<b>For the year ended 31 December 2007 (unaudited)</b>
Net profit/(loss) before tax	HK\$1,250,639	HK\$(1,147,141)
Net profit/(loss) after tax	HK\$1,250,105	HK\$(1,150,746)

Upon completion of the Share Acquisition Agreement, Creative Pacific will be owned as to 60% by Famous Name and will become an indirect subsidiary of the Company. The results of the Target Group will be consolidated into the Group's financial results for the financial year ending 31 December 2008.

## REASONS FOR THE ACQUISITION

The Group is principally engaged in the import, marketing, distribution and after-sales service of high quality, branded products serving customers in the Asian region, in particular, the markets of the PRC, Hong Kong, Macau, Singapore and Malaysia, and property investment. The products include principally cars and car accessories, motor yachts, helicopters, premium fashion apparels and accessories, air-conditioning and refrigeration products, audio-visual equipment, car audio and electronic products.

The Board is of the view that the Acquisition would enable the Group to expand and diversify its existing fashion and accessories business line in the PRC; and provide synergy to the Group's wholesale and distribution networks in the PRC. As the PRC luxury market grows with a fast pace, sales and profit margins of high quality and trendy fashion are expected to grow in the foreseeable future. On this basis, the Board is of the view that the Group's profitability and revenue stream shall be strengthened and further diversified by the Acquisition.

In view of the above, the Directors are of the view that the terms of the Share Acquisition Agreement including the Consideration are fair and reasonable so far as the Shareholders are concerned and the Share Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

## **GENERAL**

The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. A circular containing, amongst others, further details of the Acquisition will be despatched to the Shareholders as soon as practicable.

The Vendor is principally engaged in investment holding.

## **DEFINITIONS**

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of 60% of the issued share capital of Creative Pacific;
“Board”	the board of Directors;
“Company”	Wo Kee Hong (Holdings) Limited, a company incorporated in Bermuda with limited liability and the Shares are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the Acquisition in accordance with the Share Acquisition Agreement;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the consideration for the Acquisition under the Share Acquisition Agreement;
“Creative Pacific”	Creative Pacific Limited (香港新概念控股有限公司), a company incorporated in Hong Kong with limited liability;
“Directors”	the directors of the Company;
“Famous Name”	Famous Name Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company;
“First Period”	the 12 months ending on 31 May 2009;

“Franchise Agreements”	all the franchise agreements entered into between the Target Group and franchisees for the Target Group’s franchising business;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	16 June 2008 or such later date as the parties may agree in writing;
“NCS Audit 2009”	the audited accounts of New Conception Shanghai for the First Period to be prepared and issued by an auditor to be appointed by Famous Name in accordance with generally accepted accounting principles in the PRC;
“NCS Audit 2010”	the audited accounts of New Conception Shanghai for the Second Period to be prepared and issued by an auditor to be appointed by Famous Name in accordance with generally accepted accounting principles in the PRC;
“NCY Audit 2009”	the audited accounts of New Concept Yi Hua for the First Period to be prepared and issued by an auditor to be appointed by Famous Name in accordance with generally accepted accounting principles in the PRC;
“NCY Audit 2010”	the audited accounts of New Concept Yi Hua for the Second Period to be prepared and issued by an auditor to be appointed by Famous Name in accordance with generally accepted accounting principles in the PRC;
“New Conception Shanghai”	New Conception Fashion Shanghai Co., Ltd. (上海新概念服飾有限公司), a wholly foreign owned enterprise established in PRC and a wholly-owned subsidiary of Creative Pacific;
“New Concept Yi Hua”	New Concept Yi Hua (Shanghai) Trading Co., Ltd.* (新概念溢華(上海)貿易有限公司), a wholly foreign owned enterprise established in PRC and a wholly-owned subsidiary of Creative Pacific;
“PRC”	The People’s Republic of China;
“Purchaser Guarantor”	the Company;
“Sale Shares”	6,000 shares of HK\$1.00 each in the issued share capital of Creative Pacific;
“Second Period	the 12 months ending on 31 May 2010



“Second Year AT Net Profit”	Hong Kong Dollar equivalent of the audited net profit after tax of New Conception Shanghai as shown in the NCS Audit 2010 and the audited net profit after tax of New Concept Yi Hua as shown in the NCY Audit 2010, both converted at the middle rate as at 31 May 2010 quoted by the People’s Bank of China (or the last quoted middle rate prior to 31 May 2010 if there is no such quotation on that day);
“Share Acquisition Agreement”	the agreement dated 16 May 2008 entered into between Famous Name, the Vendor, the Vendor Guarantor and the Company in connection with the Acquisition;
“Shareholders”	the holders of the Shares;
“Shares”	the ordinary shares of HK\$0.10 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Group”	Creative Pacific and the WFOEs;
“Vendor”	Victory Globe International Limited, a company incorporated in the British Virgin Islands with limited liability;
“Vendor Guarantor”	Chan Chun Wa, Vincent;
“WFOEs”	New Conception Shanghai and New Concept Yi Hua;
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong; and
“RMB”	Renminbi, the lawful currency of the PRC.

*As at the date of this announcement, the Board comprises Mr. Richard Man Fai LEE (Executive Chairman and Chief Executive Officer), Mr. Jeff Man Bun LEE, Mr. Tik Tung WONG and Mr. Waison Chit Sing HUI, all of whom are executive Directors; Ms. Kam Har YUE, who is a non-executive Director; Mr. Boon Seng TAN, Mr. Raymond Cho Min LEE, and Mr. Ying Kwan CHEUNG, all of whom are independent non-executive Directors.*

By Order of the Board  
**WO KEE HONG (HOLDINGS) LIMITED**  
**Richard Man Fai LEE**  
*Executive Chairman and Chief Executive Officer*

Hong Kong, 19 May 2008

\* *for identification purpose only*