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CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED
中港照相器材集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1123)

ANNOUNCEMENT

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF CERTAIN ASSETS FROM YCY HOLDINGS LIMITED AND ITS SUBSIDIARIES AND GALERIEN UND PARTNERPLUS LIMITED

THE ACQUISITION TRANSACTION

The Board is pleased to announce that on 24 May 2013, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendors and the Guarantors, pursuant to which the Purchaser has agreed to purchase, and the Vendors have agreed to sell the Business Assets at a Consideration of approximately HK\$113,500,000 which is subject to adjustment. The Consideration will be satisfied by a combination of cash payment and issue of the Consideration Shares by the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition Transaction is/are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Acquisition Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements.

Under the Listing Rules, the Acquisition Transaction is also required to be subject to approval of the Shareholders. Under Rule 14.44 of the Listing Rules, Searich Group Limited, holding approximately 51.56% shareholding interest in the Company, has given its consent to entering into the Agreement and the Acquisition Transaction contemplated thereunder. Subject to fulfilment of other conditions under Rule 14.44 of the Listing Rules, the written approval from that Shareholder in lieu of holding a physical Shareholders' meeting is acceptable for approval of the Acquisition Transaction.

DESPATCH OF CIRCULAR

A circular containing, among other things, information relating to the Agreement will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

THE AGREEMENT

Date: 24 May 2013

Parties: (i) the Purchaser;
(ii) the Vendors; and
(iii) the Guarantors.

The due performance of the Vendors under the Agreement is guaranteed by the Guarantors. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendors, Guarantors and their respective ultimate beneficial owners, is a third party independent of the Company and connected persons of the Company.

MAJOR TERMS OF THE AGREEMENT

Business Assets to be acquired

The Business Assets comprise the following assets:

- (i) the Computer Systems;
- (ii) the Office Equipment;
- (iii) the Leasehold Improvements;
- (iv) the Records;
- (v) the Stock; and
- (vi) the assignment of the Trademarks.

Consideration

The Consideration for the Acquisition Transaction is approximately HK\$113,500,000 subject to the following major adjustments pursuant to the Agreement, whether by subtraction or addition, to reflect the change in the value of the Business Assets:

- (i) any non-delivered Business Assets on the Completion Date;
- (ii) any potential costs and expenses in relation to any legal proceedings instituted against the Vendors after the publication of the Transfer Notice;
- (iii) the actual value of the Stock at Completion Date;
- (iv) the return of part of the Stock Price if any Stock acquired at Completion remained unsold after the expiry of 12 months from the Completion Date;
- (v) the return of the part of the Consideration in respect of any failure to assign the Trademarks after Completion; and
- (vi) the compensation to be made by the Vendors to the Purchaser for any breach of the warranties by the Vendors under the Agreement.

The Consideration and the mechanism for its adjustment were arrived at after arm's length negotiations between the Purchaser and the Vendors and are on normal commercial terms, with reference to the Company's valuation of the Business Assets based on various factors including, but not limited to, the book and market value of each of the Business Assets, and such other considerations as arising during the normal course of negotiations. In addition, the Company has also considered the future synergy, costs saving and potential business opportunities, so as to come up with the amount of Consideration as well as the Earn-out Payment (as defined below).

The Consideration shall be paid by the Purchaser in the following manner:

- (i) HK\$7,000,000 being the Deposit shall be payable to the Vendors in cash at signing of the Agreement;
- (ii) HK\$31,000,000 shall be payable to the Vendors in cash at Completion;
- (iii) HK\$15,000,000 shall be satisfied by procuring the Company to allot and issue the Consideration Shares credited as fully paid at the issue price of HK\$0.698 per Share to the Vendors within 20 Business Days after the Completion Date;
- (iv) a sum equals to the actual Stock Price after the physical stock-take on the Completion Date being calculated, adjusted and payable to the Vendors and in any event shall not be more than HK\$60,000,000; and

- (v) HK\$10,500,000 shall be payable to the Vendors in cash by three instalments in three years at HK\$3,500,000 each subject to adjustment (the “Earn-out Payment”) pursuant to the terms of the Agreement.

The final Consideration payable after adjustment will not be more than HK\$123,500,000. The part of the Consideration payable in cash shall be financed by the Company’s internal resources.

Consideration Shares

Issue of the Consideration Shares

The Consideration Shares will be allotted and issued under the general mandate granted to the Directors of the Company at the annual general meeting of the Company which was held on 10 August 2012. The Consideration Shares, when issued, will rank pari passu in all respects with the existing Shares then in issue.

The Consideration Shares of 21,489,972 Shares (being approximately 13.22% of the total amount of Consideration subject to adjustment) represent (i) approximately 1.85% of the existing issued share capital of the Company as at the date of this announcement; (ii) approximately 1.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price of HK\$0.698 per Consideration Share was arrived at by the parties of the Agreement after arm’s length negotiations taking into account, among other things, the average closing price of the Shares for the last five consecutive trading days before the date of this announcement.

The issue price of the Consideration Shares of HK\$0.698 per Share represents:

- (i) a discount of approximately 0.29% below the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on the date of this announcement;
- (ii) neither a premium nor a discount of the average closing price of approximately HK\$0.698 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of this announcement; and
- (iii) neither a premium nor a discount of the average closing price of approximately HK\$0.698 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the date of this announcement.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.

Lock-up period

The Vendors unconditionally and irrevocably undertake (except in accordance with the terms of the Agreement) not to, at any time in three year period commencing on the Completion Date, inter alia, sell, transfer or otherwise dispose of, mortgage, charge, pledge nor enter into any agreement to sell, transfer or dispose of, mortgage, charge, pledge or otherwise create any options, rights, interests or encumbrances in respect of, any of the Considerations Shares.

Employment of Mr. Yu

One of the Guarantors, Mr. Yu, has also entered into an employment agreement with the Purchaser on the date of this announcement whereby he will, among other things, take up the position as a managing director of the Purchaser with effect from the Completion Date and subject to the terms contained therein.

Conditions Precedent to Completion

The Completion of the Acquisition Transaction is conditional upon the fulfilment of, among other things, the following conditions precedents (except being waived) on or before the Long Stop Date:

- (i) the approval by way of an ordinary resolution having passed by the Shareholders at a meeting duly convened for such purpose and in accordance with the Listing Rules (if required under the Listing Rules), being obtained, for the entering into of the Agreement, the issue of the Consideration Shares and the transactions contemplated under the Agreement;
- (ii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Consideration Shares on the Main Board of the Stock Exchange;
- (iii) all the Transferring Employees having accepted the offers of employment by and entered into employment contracts with the Purchaser;
- (iv) the Vendors having applied for the Trademark Applications with the Trade Marks Registry and there are no circumstances which would prevent any such applications from proceeding to registration;
- (v) the warranties given by the Vendors in the Agreement not being untrue or inaccurate or misleading at Completion;
- (vi) the completion of a due diligence review of, including but not limited to, the books, records, financial condition and prospects, business, distribution rights, licences, physical assets and agreements in relation to the Business Assets;

- (vii) all necessary approvals, consents, authorisations, filings, licences and permits which may be required by any member of the Vendors' Group and the Guarantors from any governmental or regulatory authorities for the consummation of the transactions contemplated under of the Agreement having been obtained; and
- (viii) the Transfer Notice having been published in accordance with the Transfer of Businesses Ordinance and no claim was made within the statutory time limit set out in such ordinance.

If any of the above conditions has not been fulfilled (or waived by the Purchaser (except items (i) and (ii) which cannot be waived)) on or before the Long Stop Date (or such later date as may be agreed by the Purchaser and the Vendors in writing), the Agreement shall lapse whereupon, inter alia, (i) no party shall be obliged to proceed to Completion; (ii) the Deposit shall be refunded to the Purchaser together with accrued interest forthwith upon demand of the Purchaser; and (iii) no party shall have any claim against any of the other parties under the Agreement except claims arising out of any antecedent breach of any of the provisions in the Agreement. If the Vendors fail to return the Deposit or any part thereof pursuant to the Agreement, the Purchaser shall be entitled to enforce the Property Charge forthwith.

Completion

Completion shall take place on the fifth Business Day after the date on which the conditions precedents to the Agreement have all been fulfilled or waived (if applicable).

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming (i) no Shares will be issued and/or repurchased by the Company from the date of this announcement up to the date of issue of the Consideration Shares; and (ii) a total of 21,489,972 Consideration Shares will be issued, the shareholding structure of the Company as at the date of this announcement and immediately after the allotment and issue of the Consideration Shares is as follows:

Shareholders	Issued share capital as at the date of this announcement		Issued share capital immediately after allotment and issue of the Consideration Shares	
	No. of Shares	Approximately	No. of Shares	Approximately
		%		%
Trident Trust Company (B.V.I.) Limited (Note 1)	711,276,214	61.12	711,276,214	60.01
HSBC Trustee (C.I.) Limited (Note 2)	70,000,000	6.01	70,000,000	5.91
The Vendors	–	–	21,489,972	1.81
Public Shareholders	382,552,163	32.87	382,552,163	32.27
Total	1,163,828,377	100	1,185,318,349	100

Notes:

- Of 100,000,000 Shares representing 8.59% of the Shares in issue are directly owned by Fine Products Limited. Of 600,034,214 Shares representing 51.56% of the Shares in issue are owned by Searich Group Limited, a company incorporated in the British Virgin Islands, in which Fine Products Limited holds 75% of its issued share capital. Fine Products Limited is a company incorporated in the British Virgin Islands and is owned by Trident Trust Company (B.V.I.) Limited in its capacity as the trustee of The Sun Family Trust.
- The interests of HSBC Trustee (C.I.) Limited are held via a chain of controlled corporations, namely Li & Fung (Retailing) Limited, Li & Fung (1937) Limited and King Lun Holdings Limited (which is 50% owned by HSBC Trustee (C.I.) Limited).

INFORMATION ON THE COMPANY AND THE VENDORS

Information of the Company

The Group is principally engaged in marketing and distribution of photographic developing, processing and printing products, the operations of retail photographic developing and processing shops, the operations of retail beauty products shops and the provision of technical services for photographic developing and processing products.

The Purchaser is a wholly-owned subsidiary of the Company and a dormant company.

Information of the Vendors

The Business of the Vendors includes selling consumer electronics products in retail shops in Hong Kong, providing installation and project design, and distributing high-end audio and video products under international brands. The Vendors are also a distributor of wholesaling large-sized television sets under international brands.

YCY Holdings Limited is the sole shareholder of each of AV Life Limited, Life Digital Limited, Life Electric Limited and E-Max Global Technology Limited, and it also holds 60% shareholding in Pro Audio Limited. E-Max Global Technology Limited holds the entire issued share capital of EMCS Limited. Pro Audio Limited holds the entire issued share capital of EMMY Technology Limited. YCY Holdings Limited is in turn held by the Guarantors in equal shares. Galerien und PartnerPlus Limited is held by the Guarantors as to 30% each while the remaining 10% by a third party. The Guarantors are also the directors of each of the Vendors and Galerien und PartnerPlus Limited.

YCY Holdings Limited is a company incorporated in Hong Kong with limited liability and an investment holding company.

AV Life Limited is a company incorporated in Hong Kong with limited liability and engages in operating shops under the trade name of “AV Life Prestige & device”.

Life Digital Limited is a company incorporated in Hong Kong with limited liability and engages in operating shops under the trade name of “Life Digital Gadgets & device”.

Life Electric Limited is a company incorporated in Hong Kong with limited liability and engages in operating shops under the trade name of “Life Electric Quality & device”.

E-Max Global Technology Limited is a company incorporated in Hong Kong with limited liability and engages in providing logistics, delivery and installation services.

Pro Audio Limited is a company incorporated in Hong Kong with limited liability and engages in distribution of projectors, screens, video conference and security machines.

EMCS Limited is a company incorporated in Hong Kong with limited liability and engages in providing customer services, repair and maintenance.

EMMY Technology Limited is a company incorporated in Hong Kong with limited liability and engages in conducting project business.

Galerien und PartnerPlus Limited is a company incorporated in Hong Kong with limited liability and engages in retailing of audio and video products.

FINANCIAL INFORMATION OF THE BUSINESS ASSETS

Set out below is the selected financial information attributable to the assets which are the subject of the Acquisition Transaction, based on the management information for the two years ended 31 March 2011 and 2012:

	Year ended 31 March (unaudited)	
	2011	2012
	HK\$'000	HK\$'000
Profit before taxation and extraordinary items (<i>Note</i>)	9,668	7,646
Value of the assets	N/A	71,187

Note: The Vendors do not provide standalone financial statements for the Business Assets, the above figures are based on management information provided by the Vendors and have not been audited. Profits after taxation and extraordinary items are not applicable in this case.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

The Acquisition Transaction is the new business strategy of the Company in terms of diversifying its principal business and expanding into high-margin project business for commercial customers. The Board is of the view that with the integration of the Vendors' operational platform with the Company will create synergy effect that will enhance customer service quality, cross selling opportunity and operating efficiency for the Company. The acquisition of the Business Assets is in line with the Company's business strategy and this will open the door for more future business collaborations that will benefit the Company's existing business.

In view of the foregoing, the Directors consider that the terms of the Agreement are fair and reasonable and the Acquisition Transaction is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition Transaction is/are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Acquisition Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements.

Under the Listing Rules, the Acquisition Transaction is also required to be subject to approval of the Shareholders. Under Rule 14.44 of the Listing Rules, Searich Group Limited, holding approximately 51.56% shareholding interest in the Company, has given its consent to entering into the Agreement

and the Acquisition Transaction contemplated thereunder. Subject to fulfilment of other conditions under Rule 14.44 of the Listing Rules, the written approval from that Shareholder in lieu of holding a physical Shareholders' meeting is acceptable for approval of the Acquisition Transaction.

DESPATCH OF CIRCULAR

A circular containing, among other things, information relating to the Agreement will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this announcement:

“Acquisition Transaction”	the acquisition of the Business Assets under the Agreement
“Agreement”	the assets purchase agreement dated 24 May 2013 entered into between the Purchaser, the Vendors and the Guarantors in relation to the Acquisition Transaction
“Business”	the business of the Vendors
“Business Assets”	the assets of the Vendors in relation to their Business to be acquired by the Purchaser
“Business Day”	a day on which banks are generally open for business in Hong Kong and which is not a Saturday, a Sunday, a public holiday or a day on which typhoon signal no. 8 or a “black” rainstorm warning is hoisted in Hong Kong
“Board”	the board of Directors of the Company
“Company”	China-Hongkong Photo Products Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition Transaction
“Completion Date”	the date where Completion shall take place
“Computer Systems”	all computer hardware, Software, microprocessors and any other items that connect with any of them which in each case are owned or used by the Vendors in the Business (or any part of it)

“Consideration”	the aggregate consideration subject to adjustment payable to the Vendors by the Purchaser pursuant to the Agreement
“Consideration Shares”	21,489,972 new Shares of the Company to be allotted and issued by the Company to the Vendors
“Deposit”	the sum of HK\$7,000,000 payable by the Purchaser to the Vendors and refundable in nature
“Director(s)”	the director(s) of the Company
“Employees”	the persons who are employed by the Vendors in the Business
“Group”	the Company and its subsidiaries
“Guarantors”	YAU Chuen-Yui Patrick, YU Man-Ching and CHOW Ho-Shu
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Leasehold Improvements”	the leasehold improvements retained in the Lease Property owned or used by the Vendors in the Business
“Lease Property”	the lease properties currently occupied by the Vendors in conducting the Business
“Long Stop Date”	1 August 2013 (or such later date as may be agreed in writing between the parties)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Yu”	Mr. YU Man-Ching, one of the shareholders of YCY Holdings Limited and one of the Guarantors
“Office Equipment”	the office equipment owned or used by the Vendors in the Business
“Purchaser”	Imaging and Information Products Trading Limited, is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

“Property Charge”	a legal charge as of the date of this announcement over the property situated at all those offices A, B, C and D on 28/F., Kings Tower, 111 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong given by YCY Holdings Limited in favour of the Purchaser
“Records”	all books and records (in whatever form stored) relating to the Business, the Business Assets and the Employees
“Software”	any form of computer program, including applications software and operating systems, whether in source or object code form
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholders”	holders of the issued Shares
“Stock”	the stocks of the Business as at the Completion Date including goods purchased for resale, consumable stores, finished goods (and including items supplied by a supplier subject to reservation of title)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stock Price”	the price to be paid for the Stock as agreed or determined by the Vendors and the Purchaser pursuant to the Agreement
“Trademarks”	the trade/brand names used by the Vendors in the Business namely, “AV Life Prestige & device”, “Life Electric Quality & device” and “Life Digital Gadgets & device”
“Trademark Applications”	the application for registering the Trademarks under the classes of 9 and 35 with the Trade Marks Registry
“Trade Marks Registry”	the Trade Marks Registry in Hong Kong
“Transfer Notice”	transfer notice issued pursuant to Transfer of Businesses Ordinance
“Transfer of Businesses Ordinance”	Transfer of Businesses (Protection of Creditors) Ordinance (Chapter 49 of the Laws of Hong Kong)
“Transferring Employees”	the Employees who have accepted the offers of employment by the Purchaser on Completion

“Vendors”	YCY Holdings Limited, AV Life Limited, Life Digital Limited, Life Electric Limited, E-Max Global Technology Limited, Pro Audio Limited, EMCS Limited, EMMY Technology Limited and Galerien und PartnerPlus Limited
“Vendors’ Group”	any of the following from time to time: the Vendors, its subsidiary undertakings, any parent undertaking of the Vendors and all other subsidiary undertakings of any parent undertaking of the Vendors and “member of the Vendors’ Group” shall be construed accordingly
“%”	per cent

By order of the Board
Sun Tai Lun
Chairman

Hong Kong, 24 May 2013

As at the date of this announcement, the Directors of the Company are:

Executive directors: Dr SUN Tai Lun, Dennis, Mr SUN Tao Hung, Stanley, Ms NG Yuk Wah, Eileen and Mr TANG Kwok Tong, Simon

Independent non-executive directors: Mr AU Man Chung, Malcolm, Mr LI Ka Fai, David, Mr LIU Hui, Allan and Dr WONG Chi Yun, Allan

An announcement containing details of the matter is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkex.com.hk> under “Latest Listed Companies Information” and the website of the Company at <http://www.chinahkphoto.com.hk>.

PricewaterhouseCoopers Corporate Finance Limited acted as the financial advisor to the Company.