

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **SINCERE WATCH (HONG KONG) LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 444)**

### **CONTINUING CONNECTED TRANSACTIONS INVENTORY CONTROL AGREEMENT**

On 1 April 2019 (after trading hours), the Company and SWL entered into the 2019 Inventory Control Agreement, whereby members of the Group and members of the SWL Group may sell and purchase the Products to and from each other on the condition that their respective customers shall have priority over the Group or members of the SWL Group (as the case may be) when purchasing the same Products, subject to the Annual Caps of HK\$19,000,000 (HK\$5,000,000 for sale and HK\$14,000,000 for purchase respectively) for each of the three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022.

SWL is a Shareholder interested in 5.39% of the existing issued Shares and is wholly owned by Mrs. Chu, an executive Director and the chairman of the Company and a Shareholder interested in 9.78% (comprising her personal interest in 4.38% of the existing issued Shares and deemed interest in 5.39% of the existing issued Shares held by SWL) of the existing issued Shares. As SWL is wholly owned by Mrs. Chu, the transactions contemplated under the 2019 Inventory Control Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios (other than the profits ratio) with respect to the 2019 Inventory Control Agreement are less than 5% on an annual basis, the 2019 Inventory Control Agreement will be exempted from the independent Shareholders' approval requirement and will only be subject to the reporting, announcement and annual review requirements of the Listing Rules.

## **2019 INVENTORY CONTROL AGREEMENT**

### **Background**

Reference is made to the 2016 Inventory Control Agreement dated 29 March 2016 entered into between the Company and SWL, a Shareholder holding 5.39% of the existing issued Shares as at the date of this announcement, whereby members of the Group and members of the SWL Group may sell and purchase the Products to and from each other with a term from 1 April 2016 to 31 March 2019. Details of the 2016 Inventory Control Agreement were disclosed in the Company's announcement dated 29 March 2016 and supplemental announcement dated 15 April 2016.

Having considered the historical utilization rate of the annual caps for the financial years ended 31 March 2017 and 31 March 2018, and the eleven months ended 28 February 2019, the Board anticipates that the existing annual cap for sale will be more than sufficient for the business needs of the Group for the financial years ending 31 March 2020, 2021 and 2022. Therefore, the Board proposes the new annual caps for the next three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022.

On 1 April 2019 (after trading hours), the Company and SWL entered into the 2019 Inventory Control Agreement whereby no material changes have been made to the terms and conditions of the 2016 Inventory Control Agreement, save for the proposed new annual caps for the three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022. The key terms of the 2019 Inventory Control Agreement are summarized below.

### **The 2019 Inventory Control Agreement**

On 1 April 2019 (after trading hours), the Company and SWL entered into the 2019 Inventory Control Agreement, whereby the Group may:

- (a) sell the Products to any members of the SWL Group in Singapore for onward sale and distribution in the ordinary and usual course of business when any members of the SWL Group in Singapore are out of stock of certain models of the Products, provided that customers of the Group shall have priority over members of the SWL Group when purchasing the same Products from the Group; and
- (b) purchase the Products from any members of the SWL Group in Singapore in the ordinary and usual course of business when the Group is out of stock of certain models of the Products in the PRC, Hong Kong, Macau, Taiwan and Korea, provided that customers of the SWL Group shall have priority over the Group when purchasing the same Products from the SWL Group,

for a term commencing on 1 April 2019 and expiring on 31 March 2022 unless otherwise terminated pursuant to the terms of the 2019 Inventory Control Agreement.

Regarding the pricing policies in the 2019 Inventory Control Agreement, the prices of each type of the Products purchased and sold by the Group are determined based on their product costs (“**Manufacturer Costs**”) charged by the exclusive supplier (who is also the exclusive manufacturer) of the Products in Switzerland, plus the fixed margin which principally represents the administrative expenses relating to insurance and shipment costs for the Products. The administrative expenses approximate to 3% to 5% of the Manufacturer Costs. The Manufacturer Costs of both the Company and SWL are charged by the same exclusive supplier (who is also the exclusive manufacturer) of the Products in Switzerland.

The 2019 Inventory Control Agreement shall be terminable prior to the expiry of the term if, among other matters, the transactions contemplated thereunder cease to be continuing connected transactions for the Company under the Listing Rules from time to time.

### **Historical figures and Annual Caps**

For the purpose of determining the Annual Caps for each of the three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022 in relation to the 2019 Inventory Control Agreement for the sale and purchase of the Products by the Group to or from members of the SWL Group, the Directors have taken into account the Group’s historical aggregate amount of sale to and purchase from members of the SWL Group, the possibility of certain models of watches becoming out of stock for the Group or the SWL Group (as the case may be), the increase in prices of watches and the fluctuations of Swiss franc and/or Euro.

The following sets out (a) the historical figures (and annual caps) for the transactions under the 2016 Inventory Control Agreement for each of the two financial years ended 31 March 2017 and 31 March 2018 and the eleven months ended 28 February 2019; and (b) the Annual Caps for each of the three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022:

	Historical figures (and annual caps) of the transactions under the 2016 Inventory Control Agreement <i>(in HK\$)</i>			Annual Caps <i>(in HK\$)</i>		
	For the financial year ended 31 March 2017	For the financial year ended 31 March 2018	For the eleven months ended 28 February 2019	For the financial year ending 31 March 2020	For the financial year ending 31 March 2021	For the financial year ending 31 March 2022
<b>Transactions</b>						
Sale of the Products by the Group to members of the SWL Group	3,277,000 (14,500,000)	331,000 (14,500,000)	508,000 (14,500,000)	5,000,000	5,000,000	5,000,000
Purchase of the Products by the Group from members of the SWL Group	14,415,000 (14,500,000)	9,642,000 (14,500,000)	9,960,000 (14,500,000)	14,000,000	14,000,000	14,000,000

## **Reasons for entering into the continuing connected transactions**

The Products to be sold and purchased by the Group to or from members of the SWL Group principally relate to the same kind of fine and luxury watches. As most of the watches sold by the Group and the SWL Group are handmade with limited quantity worldwide, supply for these watches from the manufacturers is limited in a period of time. The sale and purchase effected between the Group and members of the SWL Group has been and will continue to be made in the ordinary and usual course of business to meet their respective customers' demand in the event when certain models of watches are out of stock in the PRC, Hong Kong, Macau, Taiwan and Korea (in relation to the Group) or in places other than the PRC, Hong Kong, Macau and Taiwan (in relation to the SWL Group).

As the pricing of the Group's sale and purchase of the Products shall be at prices and on terms and conditions which are based principally on cost plus a fixed margin (approximate to 3% to 5% of the Manufacturer Costs), which principally represent the administrative expenses relating to insurance and shipment cost, the Directors (including the independent non-executive Directors) are satisfied and believe that (a) the terms and conditions of the 2019 Inventory Control Agreement have been negotiated on arm's length basis and are on normal commercial terms; (b) the transactions contemplated under the 2019 Inventory Control Agreement will be conducted in the ordinary and usual course of business of the Company; (c) the Annual Cap for each of the three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022 is fair and reasonable; and (d) the 2019 Inventory Control Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **INFORMATION ON THE GROUP AND THE SWL GROUP**

The Group is principally engaged in distribution and retail of branded luxury watches, timepieces and accessories in the PRC, Hong Kong, Macau, Taiwan and Korea, dining business, and property investment.

The SWL Group is principally engaged in the retail and wholesale of fine and luxury brands of watches with a main focus on watch retail.

## **LISTING RULES IMPLICATION**

SWL is a Shareholder interested in 5.39% of the existing issued Shares and is wholly owned by Mrs. Chu, an executive Director and the chairman of the Company and a Shareholder interested in 9.78% (comprising her personal interest in 4.38% of the existing issued Shares and deemed interest in 5.39% of the existing issued Shares held by SWL) of the existing issued Shares as at the date of this announcement. As SWL is wholly owned by Mrs. Chu, the transactions contemplated under the 2019 Inventory Control Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios (other than the profits ratio) with respect to the 2019 Inventory Control Agreement are less than 5% on an annual basis, the 2019 Inventory Control Agreement will be exempted from the independent Shareholders' approval

requirement and will only be subject to the reporting and announcement requirements set out in Rule 14A.76 of the Listing Rules and the annual review requirement set out in Rules 14A.55 to 14A.59 of the Listing Rules.

According to Rule 14A.55 of the Listing Rules, each year the independent non-executive Directors must review the transactions contemplated under the 2019 Inventory Control Agreement and confirm in the annual report and accounts that the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) in accordance with the 2019 Inventory Control Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. Further, it is stated in Rule 14A.56 of the Listing Rules that each year the auditors of the Company must provide a letter to the Board confirming that the transactions contemplated under the 2019 Inventory Control Agreement (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Group; (c) have been entered into in accordance with the 2019 Inventory Control Agreement; and (d) have not exceeded the Annual Caps disclosed in this announcement.

Pursuant to Rule 14A.54 of the Listing Rules, if the Annual Caps are exceeded or when the 2019 Inventory Control Agreement is renewed or there is a material change to the terms of the 2019 Inventory Control Agreement, the Company must re-comply with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(i) Mrs. Chu, an executive Director and the chairman of the Company and a Shareholder interested in 9.78% (comprising her personal interest in 4.38% of the existing issued Shares and deemed interest in 5.39% of the existing issued Shares held by SWL) of the existing issued Shares; and (ii) Mr. Chu, Kingston Chun Ho, an executive Director of the Company and a director of SWL, being the son of Mrs. Chu, are considered to be interested in the 2019 Inventory Control Agreement. Both of them have abstained from voting on the related resolutions at the Board meeting in which the 2019 Inventory Control Agreement was considered.

## **DEFINITIONS**

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

“2016 Inventory Control Agreement”	the agreement dated 29 March 2016 entered into between the Company and SWL whereby members of the Group and members of the SWL Group may sell and purchase the Products to and from each other with a term from 1 April 2016 to 31 March 2019
“2019 Inventory Control Agreement”	the agreement dated 1 April 2019 entered into between the Company and SWL whereby members of the Group and members of the SWL Group may sell and purchase the Products to and from each other with a term from 1 April 2019 to 31 March 2022

“Annual Cap(s)”	the maximum aggregate annual value(s) in respect of the transactions contemplated under the 2019 Inventory Control Agreement for each of the three financial years ending 31 March 2020, 31 March 2021 and 31 March 2022
“Board”	the board of Directors
“Company”	Sincere Watch (Hong Kong) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange with stock code 444
“Director(s)”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Korea”	the Republic of Korea
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mrs. Chu”	Mrs. Chu Yuet Wah
“PRC”	the People’s Republic of China, and for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan
“Products”	fine and luxury watches under the distribution of the Group or the SWL Group from time to time
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	share(s) of HK\$0.02 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SWL”	Sincere Watch Limited, a limited liability company incorporated in Singapore which holds 5.39% of the issued Shares as at the date of this announcement
“SWL Group”	SWL and its subsidiaries but excluding the Group

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By Order of the Board  
**Sincere Watch (Hong Kong) Limited**  
**Chu Yuet Wah**  
*Chairman*

Hong Kong, 1 April 2019

*As at the date of this announcement, the Executive Directors of the Company are Mrs. Chu Yuet Wah (Chairman), Mr. Zhang Xiaoliang (Deputy Chairman and Chief Executive Officer), Mr. Chu, Kingston Chun Ho, Mr. Yang Guangqiang and Mr. An Muzong; and the Independent Non-executive Directors of the Company are Ms. Lo Miu Sheung, Betty, Mr. Yu Zhenxin, Mr. Zong Hao and Mr. Chiu Sin Nang, Kenny.*