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If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your Shares, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF A SUBSIDIARY AND NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company



Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 9 to 27 of this circular. A letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-15 of this circular.

A notice convening the SGM to be held at Falcon Room, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 4 May 2017 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. If you are not able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

13 April 2017

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DEFINITIONS

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

“Acquisition Date”	9 May 2016, being the date of completion of the acquisition of the 577,180,500 SJB Shares by Great Captain;
“Announcement”	the announcement of the Company dated 15 March 2017 in respect of the Disposal Agreement and the Disposal Transaction;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Bank Consents”	all necessary consents from the relevant banks, lenders, finance parties or beneficiaries under the Bank Loan Documents;
“Bank Loan”	the outstanding bank loan, interest and all other sums owed by Great Captain pursuant to the facility letter dated 27 July 2016 in relation to the grant of a loan facility up to the lower of HK\$1,552 million or 45% of the current market value of the Assigned Shares (as defined therein) by Deutsche Bank AG, Singapore Branch to Great Captain (as amended, varied or supplemented) or if such bank loan is repaid but its repayment is refinanced by a new bank loan obtained by Great Captain prior to or upon Completion or Final Completion (as the case may be), the outstanding bank loan, interest and all other sums owed by Great Captain pursuant to such new bank loan;
“Bank Loan Documents”	the loan and security documents executed in respect of the Bank Loan;
“Board”	the board of Directors;
“Business Day(s)”	a day (other than a Saturday or a Sunday) on which banks are generally open for business in Hong Kong;
“BVI”	the British Virgin Islands;
“CE Guarantee”	any guarantee, surety, security or indemnity given by any member of the Group (excluding Great Captain) in respect of the obligations or liabilities of Great Captain;
“Century Frontier”	Century Frontier Limited, a company incorporated in the BVI with limited liability and a Shareholder and a company wholly and beneficially owned by Mr. Lau, Ming-wai (an associate of Ms. Chan, Hoi-wan);

DEFINITIONS

“Company”	Chinese Estates Holdings Limited (Stock Code: 127), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
“Completion”	where no notice of any Partial Completion has been given by the Purchaser, completion of the sale and purchase of all the Sale Shares and the Sale Loan in one go;
“Completion Date”	where no notice of any Partial Completion has been given by the Purchaser, any Business Day falling between the date of fulfillment of the Condition Precedent and 31 December 2017 (both days inclusive) as shall be agreed between the Vendor and the Purchaser for the purpose of Completion, or failing agreement, 29 December 2017;
“Condition Precedent”	the condition precedent to completion of the Disposal Agreement (including any Partial Completion) as set out in the paragraph headed “Condition Precedent” in the section headed “The Disposal Agreement” in the “Letter from the Board” in this circular;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Consideration”	the consideration payable by the Purchaser at Completion for the sale and purchase of the Sale Shares and the Sale Loan pursuant to the Disposal Agreement;
“core connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Deposits”	the aggregate amounts equivalent to (i) the Special Dividend receivable by Century Frontier, Solar Bright and JLLHIL, or their respective nominee(s) or custodian(s), as Shareholders; and (ii) any additional deposits of any amount on top of the aforesaid Special Dividend which the Purchaser shall be entitled to pay to the Vendor prior to Completion or Final Completion (as the case may be) pursuant to the Disposal Agreement;
“Director(s)”	director(s) of the Company;
“Disposal Agreement”	the sale and purchase agreement dated 15 March 2017 entered into among the Vendor, the Company, the Purchaser and Ms. Chan, Hoi-wan relating to the sale and purchase of the Sale Shares and the Sale Loan;
“Disposal Completion”	Completion or Final Completion, as the case may be;
“Disposal Transaction”	the transactions contemplated under the Disposal Agreement;

DEFINITIONS

“Dividend Entitlements”	the entitlements to the Special Dividend of certain Shareholders who have executed and delivered to the Vendor and the Company the Letter of Payment Direction;
“Encumbrances”	any interest or equity of any person (including, without limitation, any right to acquire, option or right of pre-emption) and any charge, mortgage, security interest, pledge, lien (including retention of title claims), assignment, power of sale or hypothecation and any rental, hire purchase, creditor, conditional sale or other third party right or restriction or encumbrance of any nature whatsoever (whether or not perfected);
“Final Completion”	if there is any Partial Completion, the last Partial Completion at which all the Sale Shares remaining unsold and all outstanding Sale Loan will be sold by the Vendor to the Purchaser;
“Final Completion Date”	if there is any Partial Completion, the date on which the Final Completion shall take place, being any Business Day on or before 31 December 2017 or such later date as may be agreed between the Vendor and the Purchaser, or failing agreement, 29 December 2017;
“Final Consideration”	the consideration payable by the Purchaser at Final Completion for the sale and purchase of the Final Sale Shares and the Final Sale Loan pursuant to the Disposal Agreement;
“Final Sale Loan”	such amount of the Sale Loan to be assigned under the Final Completion;
“Final Sale Shares”	such number of the Sale Shares to be sold under the Final Completion;
“FVTOCI”	fair value through other comprehensive income, being one of the three primary measurement categories for financial assets under HKFRS 9 (2014);
“GBP”	Pound Sterling, the lawful currency of the United Kingdom;
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreement and the Disposal Transaction;
“Great Captain”	Great Captain Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date;

DEFINITIONS

“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the Board committee comprising all independent non-executive Directors, namely Mr. Chan, Kwok-wai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun, which has been established by the Board for the purpose of advising the Independent Shareholders in relation to the Disposal Agreement and the Disposal Transaction;
“Independent Shareholders”	Shareholders other than (a) Shareholders who have a material interest in the Disposal Transaction (including Ms. Chan, Hoi-wan and her associate(s) (if they hold any Shares) in respect of the Disposal Transaction) and (b) Shareholders who are Related Parties pursuant to the Stock Exchange Undertaking;
“Initial Investment Costs”	HK\$6,926,166,000, representing the total consideration paid by, together with the related transaction costs incurred by, Great Captain for the acquisition of the 577,180,500 SJB Shares;
“JLLHIL”	Joseph Lau Luen Hung Investments Limited, a company incorporated in the BVI with limited liability and a Shareholder and an associate of Ms. Chan, Hoi-wan;
“Latest Practicable Date”	10 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Letter of Payment Direction”	a letter of payment direction regarding the Dividend Entitlements by certain Shareholders;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	31 July 2017 or such other date as may be agreed between the Vendor and the Purchaser, which is the latest time for the fulfillment of the Condition Precedent as set out in the paragraph headed “Condition Precedent” in the section headed “The Disposal Agreement” in the “Letter from the Board” of this circular;

DEFINITIONS

“Net Investment Amount”	<p>with respect to any Reference Date, the Initial Investment Costs LESS:</p> <ul style="list-style-type: none">(i) the total amount of dividends income or distributions (net of any withholding tax and any related transaction costs) which have so far, from the Acquisition Date up to and inclusive of the Reference Date, been received by Great Captain arising from its holding of the SJB Shares;(ii) the aggregate amount of all those sale proceeds (net of any related transaction costs) arising from Great Captain’s disposals of its SJB Shares effected at the request of the Purchaser which have, up to and inclusive of the Reference Date, been applied to repay the Sale Loan and/or the Bank Loan or any part thereof in accordance with the Disposal Agreement; and(iii) if applicable, the cumulative amount of all Partial Consideration paid by the Purchaser up to and inclusive of the Reference Date;
“Partial Completion”	completion of the sale and purchase of the Partial Sale Shares and the Partial Sale Loan as may be notified by the Purchaser to the Vendor in accordance with the terms of the Disposal Agreement;
“Partial Consideration”	the consideration payable by the Purchaser at any Partial Completion for the sale and purchase of the Partial Sale Shares and the Partial Sale Loan pursuant to the Disposal Agreement;
“Partial Sale Loan”	in respect of any Partial Completion, such amount of the Sale Loan to be assigned under such Partial Completion;
“Partial Sale Shares”	in respect of any Partial Completion, such number of the Sale Shares to be sold under such Partial Completion;
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

DEFINITIONS

“Previous Disposal Agreements”	<p>collectively,</p> <ul style="list-style-type: none">(i) the sale and purchase agreement dated 23 December 2015 entered into among Good Top Limited, the Company, Best Range Limited and Mr. Joseph Lau, Luen-hung relating to, among others, disposal of the entire issued share capital of Jumbo Grace Limited;(ii) the sale and purchase agreement dated 23 December 2015 entered into among the Vendor, the Company, Magic Square Limited and Mr. Joseph Lau, Luen-hung relating to, among others, disposal of the entire issued share capital of Keep Speed Company Limited;(iii) the sale and purchase agreement dated 5 December 2016 entered into among New Silver Limited, the Company, Strong Point Ventures Limited and Mr. Lau, Ming-wai relating to, among others, disposal of the entire issued share capital of Pinecrest International Limited; and(iv) the sale and purchase agreement dated 5 December 2016 entered into among Paul Y. Holdings Company Limited, the Company, Creative Dragon Ventures Limited and Ms. Chan, Hoi-wan relating to, among others, disposal of the entire issued share capital of Win Kings Holding Ltd.;
“Previous Transactions”	the transactions contemplated under the Previous Disposal Agreements;
“Purchaser”	Perfect Sign Investments Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Ms. Chan, Hoi-wan;
“Reference Date”	the date fixed for the purpose of calculating the Net Investment Amount;
“Related Party”	for the purpose of the Stock Exchange Undertaking, a director, a substantial shareholder, a subsidiary or an associated company of the Company (other than a wholly-owned subsidiary of the Company) or an associate of any such person, save that any associated company of the Company which was formed with other independent third parties who is/are not connected person(s) of the Company as a joint venture consortium to engage in real property development projects will not be regarded as a Related Party pursuant to the Stock Exchange Undertaking;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“Sale Loan”	all sums due, owing or payable by Great Captain to other members of the Group as at the Completion Date;
“Sale Shares”	the 100 shares in Great Captain beneficially owned by and registered in the name of the Vendor, representing the entire issued share capital of Great Captain;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	a special general meeting of the Company to be convened on 4 May 2017 for the purpose of the Independent Shareholders considering, and if thought fit, approving the Disposal Agreement and the Disposal Transaction;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	the holder(s) of the Share(s);
“Shengjing Bank”	Shengjing Bank Co., Ltd., a commercial bank established in the PRC, the SJB Shares of which are listed on the main board of the Stock Exchange;
“SJB Share(s)”	H share(s) of RMB1.00 each in the issued share capital of Shengjing Bank which are listed on the main board of the Stock Exchange (stock code: 2066);
“Solar Bright”	Solar Bright Ltd., a company incorporated in the BVI with limited liability and a Shareholder and an associate of Ms. Chan, Hoi-wan;
“Special Dividend”	one or more special cash interim dividend(s) proposed to be declared and paid by the Company to the Shareholders in anticipation that completion of the Disposal Agreement (other than Partial Completion) would take place (the amount of each such dividend per Share to be determined by the Board), the record date for which shall fall before the Completion Date or the Final Completion Date (as the case may be);

DEFINITIONS

“Specified Transaction(s)”	<p>for the purpose of the Stock Exchange Undertaking, transaction(s) between the Company or any of its subsidiaries and a Related Party being:–</p> <ul style="list-style-type: none">(a) any acquisition or disposal of assets by the Company or any of its subsidiaries whether in the ordinary and usual course of business of such company and/or on normal commercial terms or not;(b) an arrangement or agreement whereby the Company or any of its subsidiaries directly or indirectly grants a loan or gives other financial assistance to a Related Party; or(c) an arrangement or agreement whereby the Company or any of its subsidiaries provides security, whether by guarantee or otherwise, for the due discharge of any obligation of a Related Party; <p>which, in any such case, is for a consideration or in respect of a principal amount which, when aggregated with the consideration or principal amount of any other Specified Transaction(s) between the Company or any of its subsidiaries and any Related Party carried into effect during the previous 12 months, exceeds HK\$200 million;</p>
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Stock Exchange Undertaking”	the undertaking provided by the Company to the Stock Exchange dated 20 September 1990 (as supplemented on 8 January 1991 and amended by letter dated 24 September 1996 from the Stock Exchange);
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules;
“Vendor”	China Entertainment and Land Investment Company, Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company; and
“%”	per cent.

LETTER FROM THE BOARD



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

Executive Directors:

Chan, Sze-wan (*Chief Executive Officer*)
Chan, Hoi-wan
Chan, Lok-wan
Lam, Kwong-wai

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Non-executive Directors:

Lau, Ming-wai (*Chairman*)
Amy Lau, Yuk-wai

Principal office in Hong Kong:

26th Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

Independent Non-executive Directors:

Chan, Kwok-wai
Phillis Loh, Lai-ping
Ma, Tsz-chun

13 April 2017

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF A SUBSIDIARY

A. INTRODUCTION

Reference is made to the Announcement.

On 15 March 2017, the Vendor and the Company entered into the Disposal Agreement with the Purchaser and Ms. Chan, Hoi-wan as the guarantor of the Purchaser in relation to the sale and purchase of the Sale Shares and the Sale Loan.

The Sale Shares represent the entire issued share capital of Great Captain. The principal asset of Great Captain is its interest in 577,180,500 SJB Shares. Upon the Disposal Completion, Great Captain will cease to be a subsidiary of the Company.

LETTER FROM THE BOARD

As the Disposal Agreement was entered into within 12 months after completion of the Previous Disposal Agreements respectively, and all such agreements were entered into by the Company with the same connected person and/or her associates, the Disposal Transaction and the Previous Transactions are required to be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal Transaction (when aggregated with the Previous Transactions) exceed 25% but are less than 75%, the Disposal Transaction constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Ms. Chan, Hoi-wan is an executive Director and a substantial shareholder who (as trustee for her two minor children) indirectly held approximately 50.02% of the total issued share capital of the Company as at the Latest Practicable Date, and she is also a director and the sole beneficial owner of the Purchaser, Ms. Chan, Hoi-wan and the Purchaser are connected persons of the Company. Accordingly, the Disposal Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among others, (i) details of the Disposal Agreement and the Disposal Transaction; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Disposal Agreement and the Disposal Transaction; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreement and the Disposal Transaction; and (iv) other information as required under the Listing Rules together with the notice of SGM.

B. THE DISPOSAL AGREEMENT

Date

15 March 2017

Parties

- (a) China Entertainment and Land Investment Company, Limited, as the vendor;
- (b) the Company, as the vendor guarantor;
- (c) Perfect Sign Investments Limited, as the purchaser; and
- (d) Ms. Chan, Hoi-wan, as the purchaser guarantor.

In consideration of the Purchaser and Ms. Chan, Hoi-wan entering into the Disposal Agreement, the Company has agreed to guarantee the performance by the Vendor of its obligations under the Disposal Agreement. In consideration of the Vendor and the Company entering into the Disposal Agreement, Ms. Chan, Hoi-wan has agreed to guarantee the performance by the Purchaser of its obligations under the Disposal Agreement.

LETTER FROM THE BOARD

Subject matter

Under the terms of the Disposal Agreement, the Vendor has agreed to transfer the Sale Shares and assign the Sale Loan to the Purchaser free from all Encumbrances (where the Bank Consents have been obtained, save for any Encumbrances created by the Bank Loan Documents) and with all dividends, benefits and other rights becoming attached or accruing thereto as from the date(s) of completion of sale of the Sale Shares and the Sale Loan (or any part thereof).

Condition Precedent

Completion of the Disposal Agreement (including any Partial Completion) is conditional upon the obtaining of the approval by the Independent Shareholders at the SGM in respect of the Disposal Agreement and the Disposal Transaction.

If the Condition Precedent is not fulfilled on or before the Long Stop Date, the Disposal Agreement shall thereupon terminate whereupon none of the parties thereto shall have any claim against the other for costs, damages, compensation or otherwise (save in respect of any prior breach of the Disposal Agreement).

As at the Latest Practicable Date, the Condition Precedent had not been fulfilled.

Completion and Partial Completion

The parties agreed that in addition to completing the sale and purchase of all the Sale Shares and the Sale Loan in one go at the same time, the Purchaser shall be entitled to request for Partial Completion of such sale and purchase through different stages, subject to the Condition Precedent having been satisfied and the obtaining of the Bank Consents required for such Partial Completion.

In the event that the Purchaser shall elect for Partial Completion, the Purchaser shall notify the Vendor in writing the proposed date (being not earlier than 5 days after the date of such prior written notice) (the “**Partial Completion Date**”) on which the Partial Completion shall take place (provided that the Final Completion shall take place on the Final Completion Date). The number of Partial Sale Shares subject to such Partial Completion shall be a number representing 10% or 10% plus a multiple of 1% of all the Sale Shares (provided that in the case of Final Completion, the Final Sale Shares shall be the remaining number of the Sale Shares which have not been so sold under all previous Partial Completion). The amount of the Partial Sale Loan that would be assigned under such Partial Completion shall be determined by reference to the number of the Partial Sale Shares subject to such Partial Completion, the number of the Sale Shares remaining unsold and the total outstanding Sale Loan at such Partial Completion pursuant to the terms of the Disposal Agreement (provided that in case of the Final Completion, the Final Sale Loan shall be the Sale Loan still outstanding at the Final Completion).

LETTER FROM THE BOARD

If there occurs any Partial Completion after fulfillment of the Condition Precedent, Final Completion will take place on the Final Completion Date. If the Purchaser fails to proceed with the Final Completion as such, apart from damages payable by the Purchaser to the Vendor in accordance with the terms of the Disposal Agreement, the parties are required to take all actions and execute all documents necessary to unravel and unwind the sale and purchase of all those Partial Sale Shares and Partial Sale Loan effected under all previous Partial Completion and to restore the parties to their original position as if all such previous Partial Completion had not taken place (the “**Unwinding**”). Without prejudice to the foregoing, the parties to the Disposal Agreement agreed that they shall implement and complete all transactions to give effect to the Unwinding upon receipt by the Vendor of the damages, including without limitation, return by the Vendor to the Purchaser of all previous Partial Consideration already received by the Vendor (without any interests), provided that the Purchaser shall be responsible for all costs and expenses reasonably incurred by the Vendor’s group for the Unwinding. For the avoidance of doubt, the Unwinding refers to restoring the parties to their original position with respect to the Sale Shares and the Sale Loan only. Any SJB Shares which have been sold under the Sale Arrangement (as defined in the paragraph headed “Sale of SJB Shares” below) prior to such Unwinding will not be unwinded. Furthermore, in case there is any breach of warranties or pre-completion undertakings by the Vendor, the Purchaser has the right to terminate the Disposal Agreement and require Unwinding (if there occur any Partial Completion).

The Partial Completion was the result of arm’s length negotiations between the parties and provides the parties with the flexibility to complete the Disposal Transaction in stages. The Partial Completion would provide the Purchaser with greater flexibility in arranging financing for the transaction whilst allowing the Vendor to realise its investment earlier through completing the Disposal Transaction in stages.

Given that the Partial Consideration payable by the Purchaser to the Vendor under each Partial Completion is proportional to the number of Sale Shares sold under such Partial Completion, and that if the Purchaser fails to proceed with the Final Completion, apart from damages payable by the Purchaser to the Vendor in accordance with the terms of the Disposal Agreement, the position of the Vendor is further protected by the Unwinding arrangement under the Disposal Agreement.

As such, the Directors are of the view that the Partial Completion arrangement will allow the Vendor to realise its investment in the underlying SJB Shares earlier and is in the interests of the Company and the Shareholders as a whole.

If no Partial Completion is to be made, Completion shall take place on the Completion Date. The parties to the Disposal Agreement undertake with each of the other parties thereto to use their respective reasonable endeavours and in good faith to proceed with Completion, or Partial Completion and Final Completion, as soon as practicable after the fulfillment of the Condition Precedent.

Consideration

Where there is no Partial Completion, the Consideration payable by the Purchaser for all the Sale Shares and the Sale Loan shall be calculated as follows and subject to a maximum amount equal to the cap of HK\$7,000 million:

LETTER FROM THE BOARD

The Consideration = A + B – C – D – E

where:–

A = the Initial Investment Costs

B = the total amount of notional interests on the Net Investment Amount (which may vary from time to time) accruing on a daily basis from the Acquisition Date up to the Completion Date calculated at the rate of 1% per annum on the basis of the actual number of days elapsed and a year of 365 days from and including the first day of such period but excluding the last day thereof

C = the total amount of dividends income or distributions (net of any withholding tax and any related transaction costs) which have so far, from the Acquisition Date up to and inclusive of the time of Completion, been received by Great Captain arising from its holding of the SJB Shares

D = the total amount of all those sale proceeds (net of any related transaction costs) arising from Great Captain's disposals of its SJB Shares effected at the request of the Purchaser which have, up to and inclusive of the time of Completion, been applied to repay the Sale Loan and/or the Bank Loan or any part thereof

E = the outstanding amount of the Bank Loan as of the Completion Date

For illustration purpose only, based on the financial information of the Group as at 31 December 2016, (A) the Initial Investment Costs amounted to HK\$6,926,166,000; (B) the total amount of notional interests on the Net Investment Amount from the Acquisition Date up to 31 December 2016 (including the first day but excluding the last day) was approximately HK\$44.0 million; (C) the total amount of dividends income or distributions (net of any withholding tax and any related transaction costs) from the Acquisition Date up to 31 December 2016 was approximately HK\$170.0 million; (D) the total amount of all sale proceeds (net of any related transaction costs) arising from Great Captain's disposals of its SJB Shares effected at the request of the Purchaser up to 31 December 2016 was nil; and (E) the outstanding amount of the Bank Loan was approximately HK\$288.4 million as at 31 December 2016, and the estimated Consideration derived from the above would be approximately HK\$6,511.8 million.

Despite that there was improvement in the operating results of Shengjing Bank from 2015 to 2016, as being further elaborated in the section headed "Reasons for and benefits of the Disposal Transaction" below, the movement of the share price of Shengjing Bank has experienced an overall persistent decreasing trend since the Acquisition Date. The Consideration was thus formulated to allow the Group to restore its original position before its acquisition of the 577,180,500 SJB Shares, which the Board considers to be advantageous to the Company having considered the overall persistent decreasing trend of the SJB Share price thereafter. The Consideration also took into account the interest (at the rate of 1% per annum which is comparable to the interest rates of the Group's existing bank deposits) that the Group would have received had the Net Investment Amount been deposited in a bank and the dividends income or distributions which have been received by Great Captain arising from the SJB Shares. In addition, the total amount of the sale proceeds arising from Great Captain's disposals of its SJB Shares effected at the request of the Purchaser which will be applied to repay the Sale Loan and/or the Bank Loan as well as the outstanding amount of the Bank Loan are accounted for on a dollar-to-dollar basis. Given the above, the Board considers that the basis of determination of the Consideration is fair and reasonable.

LETTER FROM THE BOARD

In addition, the parties to the Disposal Agreement agreed to cap the Consideration at HK\$7,000 million as a result of negotiation to ensure commercial certainty. The cap represents the maximum estimated amount of the Consideration under the scenario that item B would be approximately HK\$111.2 million, assuming the Disposal Completion will take place on 29 December 2017 (being the last Business Day for the Disposal Completion to take place); item C would be approximately HK\$170.0 million, assuming no further dividends income or distributions will be received by Great Captain from 31 December 2016 onwards; and items D and E are the minimum, i.e. nil. On this basis, the maximum estimated amount of the Consideration would be approximately HK\$6,867.4 million. As the cap would be a fairly close estimation of the Consideration, it serves as a reasonable reference to the scale of the Disposal Transaction. The Board is therefore of the view that the cap of the Consideration is fair and reasonable.

If and whenever there is any Partial Completion, each Partial Consideration and the Final Consideration shall be calculated and ascertained in the following manner, for the purpose of each Partial Completion or Final Completion (as the case may be):–

- (i) in respect of each Partial Completion, the amount of the Partial Consideration payable by the Purchaser for such Partial Completion shall be calculated as follows:–

Partial Consideration = (Relevant Fraction x H) – Y – Z, provided that where the Partial Consideration so ascertained is a negative figure, the amount of the Partial Consideration shall be deemed to be HK\$1.00

where:–

Y = the total amount of all those sale proceeds (net of any related transaction costs) arising from Great Captain's disposals of its SJB Shares effected at the request of the Purchaser which have, up to and inclusive of the time of Partial Completion for such forthcoming Partial Completion, been applied to repay the Sale Loan and/or the Bank Loan or any part thereof in accordance with the terms of the Disposal Agreement

Z = the aggregate cumulative amount of all previous Partial Consideration already paid by the Purchaser under the Disposal Agreement

“Relevant Fraction” means a fraction, the numerator of which shall be equal to the cumulative number of all those Partial Sale Shares sold under all previous Partial Completion plus the number of Partial Sale Shares to be sold under such forthcoming Partial Completion, and the denominator of which shall be equal to the number of all the Sale Shares to be sold and purchased under the Disposal Agreement

LETTER FROM THE BOARD

$$H = A + B - C$$

where:–

A = the Initial Investment Costs

B = the total amount of notional interests on the Net Investment Amount (which may vary from time to time) accruing on a daily basis from the Acquisition Date up to the Partial Completion Date for such forthcoming Partial Completion, calculated at the rate of 1% per annum on the basis of the actual number of days elapsed and a year of 365 days from and including the first day of such period but excluding the last day thereof

C = the total amount of dividends income or distributions (net of any withholding tax and any related transaction costs) which have so far, from the Acquisition Date up to and inclusive of the time of Partial Completion for such forthcoming Partial Completion, been received by Great Captain arising from its holding of the SJB Shares

- (ii) in respect of the Final Consideration, it shall be a sum equal to the Consideration (with modifications that the respective references to “Completion Date” be substituted with “Final Completion Date” and the respective references to “time of Completion” be substituted with “time of Final Completion”) minus all previous Partial Consideration already paid by the Purchaser to the Vendor, provided that in case such sum derived is a negative figure, the Final Consideration shall be deemed to be HK\$2.00 and in addition the Vendor shall upon Final Completion pay to the Purchaser a sum equal to the amount of such negative figure (as if it were a positive figure for this purpose); and
- (iii) the aggregate amount of all Partial Consideration and the Final Consideration shall not exceed the cap of HK\$7,000 million.

Deposits

Pursuant to the Disposal Agreement, the Purchaser shall pay to the Vendor the Deposits, which will be applied towards settlement of the Consideration at Completion or the Final Consideration at the Final Completion. Ms. Chan, Hoi-wan has agreed to procure Century Frontier, Solar Bright and JLLHIL to undertake to the Company and the Vendor that they shall (as agents and on behalf of the Purchaser) pay or procure to pay to the Company (as agent of the Vendor) the aggregate amount of such Special Dividend payable to them or their respective nominee(s) or custodian(s) by the Company as payment of the Deposits (or any part thereof).

If the Condition Precedent shall not have been satisfied on or before the Long Stop Date, or Completion or Final Completion does not proceed and such non-completion does not arise as a result of the default of the Purchaser or Ms. Chan, Hoi-wan under the Disposal Agreement, the Vendor shall return the Deposits (if any) without interest to the Purchaser within 7 Business Days after receiving a written demand from the Purchaser for the return.

LETTER FROM THE BOARD

If the Condition Precedent shall have been satisfied but completion of all the Sale Shares and the Sale Loan does not occur and such non-completion arises as a result of the default of the Purchaser or Ms. Chan, Hoi-wan under the Disposal Agreement, such part of the Deposits equivalent to 10% of the Initial Investment Costs shall be forfeited to the Vendor and, whereupon, the balance of the Deposits (if any) then received by the Vendor will be retained by the Vendor as security for the payment of compensation for any additional losses and/or damages (if any) suffered by the Vendor arising from such default until such losses and damages suffered by the Vendor have been assessed in accordance with the Disposal Agreement. The Vendor will, after deducting from the retained sum such losses and damages so assessed to the extent exceeding the amount of the Deposits so forfeited, return the remaining balance of the retained sum to the Purchaser. In the event the aggregate amount of the Deposits received by the Vendor at the time of forfeiture shall be less than 10% of the Initial Investment Costs, the Vendor shall be entitled to forfeit the entire Deposits and claim against the Purchaser and/or Ms. Chan, Hoi-wan to recover any further loss and/or damage (if any) suffered by the Vendor, which shall be equal to the amount of the losses and damages suffered by the Vendor as assessed in accordance with the Disposal Agreement less the total amount of the Deposits so forfeited, arising from such default.

If there occurs any Partial Completion, subject to the Vendor having received the full amount of the damages as provided in the Disposal Agreement, the parties shall do or procure to be done all such acts and things and execute or procure to be executed all such deeds and documents as may be necessary or desirable to unravel and unwind the sale and purchase of all those Partial Sale Shares and Partial Sale Loan effected under all previous Partial Completion and (as far as possible) restore the parties to their original position as if all such previous Partial Completion had not taken place.

The Purchaser may elect to settle the Consideration or the Final Consideration (or any part thereof) by procuring certain Shareholders to apply their Dividend Entitlements, subject to Completion or Final Completion (as the case may be), towards the payment of the Consideration or the Final Consideration and the Company will be authorised and instructed to pay such Dividend Entitlements to the Vendor, in lieu of such Shareholders, to settle the Consideration or the Final Consideration to the extent of the aggregate amount of such Dividend Entitlements.

Undertakings and Indemnity

For the purpose of facilitating the obtaining of the Bank Consents and a release of the CE Guarantees prior to Completion, Partial Completion or Final Completion, each of the Purchaser and Ms. Chan, Hoi-wan agrees to give and/or procure the provision of such guarantee, indemnity or security as may be reasonably required by the relevant banks or lenders or beneficiaries of the CE Guarantees following or upon such completion to replace the CE Guarantees.

LETTER FROM THE BOARD

Financing

The Vendor has agreed that if the Purchaser needs to raise loans or other borrowings from banks or third parties for its payment of the Consideration or the Final Consideration or any part thereof, on the basis of Great Captain providing guarantees or securities to such banks or third parties, and if so requested by the Purchaser and subject to compliance with all applicable laws and regulations, the Vendor will procure Great Captain to give reasonable assistance to the Purchaser prior to or at Completion or Final Completion to facilitate the provision of such securities by Great Captain and the obtaining of such financing by the Purchaser upon Completion or Final Completion.

Given the above guarantee(s) or security(ies) if provided by Great Captain will only be provided if Completion or Final Completion occurs, and that upon such completion, Great Captain will cease to be a subsidiary of the Company but become a wholly-owned subsidiary of the Purchaser, such financial assistance will therefore be provided by the subsidiary of the Purchaser. Hence, the assistance if provided by the Vendor under the Disposal Agreement will be administrative assistance in facilitating the Purchaser to obtain financing to complete the Disposal Agreement. Such administrative assistance is not unusual in sale and purchase transactions of this kind.

Sale of SJB Shares

Subject to and following fulfillment of the Condition Precedent, the Purchaser shall be entitled at any time to give the Vendor a prior written notice requesting it to procure Great Captain to dispose of such number of the SJB Shares held by it at their prevailing market price either through the Stock Exchange or to such other independent third party as shall be acceptable to the Vendor and apply such net sale proceeds arising from such disposal for the sole purpose of repaying the then outstanding Sale Loan and/or the Bank Loan or any part thereof (the “**Sale Arrangement**”).

The Vendor may or may not comply with such request of the Purchaser in full at its sole discretion and may procure Great Captain to sell a lesser number of the SJB Shares than that designated by the Purchaser.

The Company has the following internal procedures in place for deciding whether or not to procure the sale of the relevant SJB Shares in the event of receipt of such request from the Purchaser:

1. The Chief Investment Officer of the Company (currently Mr. Lam, Kwong-wai, an executive Director) (the “**CIO**”), who is responsible for the day-to-day management of the securities investment activities of the Group (the “**Investment**”), will first consider and review the request, taking into account (i) the obligation of the Vendor in the Disposal Agreement; (ii) the prevailing market conditions; (iii) the then current trading price of the SJB Shares; (iv) the completion date of the proposed sale request against the estimated completion date of the Disposal Transaction; and (v) the terms of the proposed sale.

LETTER FROM THE BOARD

2. After review, the CIO will refer the sale request with relevant analysis and recommendations (if any) to the Investment Committee of the Board (the “**Investment Committee**”). The Investment Committee has been established by the Board to perform such functions and exercise such powers as may be performed and exercised by the Board from time to time in relation to the management of the Investment of the Group (save for those specifically reserved to the Board). Members of the Investment Committee currently consist of Ms. Chan, Sze-wan (Chief Executive Officer of the Company), Mr. Lam, Kwong-wai (an executive Director and the CIO), Mr. Chan, Kwok-wai (an independent non-executive Director) and Mr. Ma, Tsz-chun (an independent non-executive Director).
3. The Investment Committee will analyse and consider the CIO’s advice and recommendations (if any) and may, if consider appropriate, obtain independent professional advice on the proposed sale. In considering the proposal, the Investment Committee, in addition to the factors considered by the CIO above, will also take into account the reasons for and benefits of the proposed sale of SJB Shares considered by the Board and the Independent Financial Adviser as set out in this circular.
4. The Board has also reserved the power to review and consider the proposed sale of SJB Shares to the Board, Therefore, after review by the Investment Committee, the Investment Committee shall refer the matter together with their recommendations to the Board for the Board’s consideration and final approval.
5. In discharging their fiduciary duties in making the relevant decision:
 - (i) the Directors will act in good faith and in the best interests of the Company and all Shareholders as a whole, rather than in the interests of any particular Shareholder;
 - (ii) any Director with interest in the Disposal Agreement will be required to disclose such interest and abstain from voting in accordance with the memorandum of association and bye-laws of the Company. Therefore, in the Investment Committee, Ms. Chan, Sze-wan (as an associate of Ms. Chan, Hoi-wan and a director of the Purchaser) will abstain from voting on resolution(s) regarding the proposed sale of SJB Shares. Apart from Ms. Chan, Sze-wan, no other current member of the Investment Committee (i.e. Mr. Lam, Kwong-wai, Mr. Chan, Kwok-wai and Mr. Ma, Tsz-chun) is an associate of Ms. Chan, Hoi-wan who will be required to abstain from voting. At the Board level, Ms. Chan, Hoi-wan and her associates, Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Mr. Lau, Ming-wai, will abstain from voting on resolution(s) regarding the proposed sale; and
 - (iii) the review and approval process above will ensure sufficient information and independent advice is available to assist the Directors to make an informed judgment.

LETTER FROM THE BOARD

The Purchaser is in substance acquiring the underlying SJB Shares held by Great Captain given that these are the principal assets of Great Captain. In view of the long completion period for the Disposal Transaction, the Purchaser is subject to substantial market risk of volatile price movement in the SJB Shares, which can fluctuate significantly. The Purchaser will become obliged to close the transaction once the Condition Precedent has been satisfied, and will thereupon bear all the risks of the underlying SJB Shares. Given that the Purchaser cannot request the Company to sell such SJB Shares until after the Condition Precedent has been fulfilled, it is fair to afford contractual protection to the Purchaser to allow the Purchaser to request to sell the underlying SJB Shares held by Great Captain to avert any potential risk associated with the SJB Shares.

Besides, according to the terms of the Disposal Agreement, any proceeds realised from the disposal of such SJB Shares will be retained in Great Captain and may only be applied to repay either the Sale Loan or the Bank Loan. It would be to the Company's advantage to cash in its investment (i.e. through repayment of the Sale Loan out of the proceeds from such disposal) quicker than to wait for final closing. As such, the Sale Arrangement was put in place as a term of the Disposal Agreement.

The Sale Arrangement may take place after the Condition Precedent has been fulfilled and before Disposal Completion. The Sale Arrangement would provide greater flexibilities to the parties. Given that the Vendor is not obliged, and has the sole discretion as to whether or not to comply with any disposal request from the Purchaser, and that any proceeds from the Sale Arrangement will only be retained in Great Captain and may only be applied for the sole purpose of paying down the Sale Loan and/or the Bank Loan and will not be passed on to the Purchaser, the Board is of the view that such arrangement is fair and reasonable and in the interest of the Company.

If the Company completed the Sale Arrangement but the Disposal Transaction does not proceed to Disposal Completion as a result of the Purchaser's default, the Vendor is not obliged to complete the Disposal Transaction and may seek damages from the Purchaser.

In the event that Partial Completion has occurred, apart from damages payable by the Purchaser to the Vendor pursuant to the Disposal Agreement, the parties will unravel and unwind the sale and purchase of all those Partial Sale Shares and Partial Sale Loan effected pursuant to the Unwinding arrangement and to restore the parties of the Disposal Agreement to their original position as if all previous Partial Completion had not taken place. Further details regarding the Unwinding arrangement is set out in the paragraph headed "Completion and Partial Completion" above. For the avoidance of doubt, the Unwinding refers to restoring the parties to their original position with respect to the Sale Shares and the Sale Loan only. Any SJB Shares which have been sold under the Sale Arrangement (as defined above in this paragraph headed "Sale of SJB Shares") prior to such Unwinding will not be unwinded.

Information on Great Captain

Great Captain is an investment holding company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company. The principal asset of Great Captain is its interest in 577,180,500 SJB Shares. The 577,180,500 SJB Shares held represented approximately 9.96% of the total issued share capital of Shengjing Bank as at 31 March 2017.

LETTER FROM THE BOARD

A summary of the unaudited results of Great Captain for each of the two years ended 31 December 2015 and 2016 prepared in accordance with HKFRSs is set out below:–

	For the year ended 31 December 2015	For the year ended 31 December 2016
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
(Loss) profit before tax	(7)	190,889
		<i>(note 1)</i>
(Loss) profit after tax	(7)	171,772
		<i>(note 2)</i>

Notes:

(1) This amount consisted of finance costs of approximately HK\$2.0 million, other income of approximately HK\$3.8 million and after-expenses dividend income of approximately HK\$189.1 million.

(2) This amount consisted of profit before tax less tax expense of approximately HK\$19.1 million.

As at 31 December 2016, the unaudited net liability of Great Captain was approximately HK\$2,194.7 million and the amount of the Sale Loan was approximately HK\$6,466.0 million.

Information on Shengjing Bank

Shengjing Bank is a joint stock company and a commercial bank established in the PRC and is principally engaged in corporate banking, retail banking and treasury businesses. The SJB Shares are listed on the main board of the Stock Exchange.

According to the published consolidated financial statements of Shengjing Bank, the audited consolidated financial results of Shengjing Bank for each of the two years ended 31 December 2015 and 2016 are as follows: –

	For the year ended 31 December 2015	For the year ended 31 December 2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Profit before tax	8,126,617	8,707,867
Profit after tax	6,223,827	6,878,292

The audited consolidated net asset value of Shengjing Bank as at 31 December 2016 was approximately RMB46,374.6 million.

LETTER FROM THE BOARD

Effect of the Disposal Transaction

The principal asset of Great Captain is the 577,180,500 SJB Shares and is recorded as financial assets measured at FVTOCI in the consolidated financial statements of the Group. Pursuant to the accounting policies of the Group, the SJB Shares (being equity investment measured at FVTOCI) are measured at fair value in the consolidated financial statements of the Group. Gains and losses arising from changes in the fair values of the SJB Shares are included in financial assets measured at FVTOCI reserve for the period in which they arise. The Group made an irrevocable election at inception to present changes in the fair value of the SJB Shares in other comprehensive income not recycling.

It is expected that the Group will record a gain of approximately HK\$2,240.5 million in the consolidated financial statements of the Group upon completion of the Disposal Agreement (subject to audit and adjustment). Such gain is assuming no Partial Completion is to be made and estimated based on the financial information of the Group as at 31 December 2016. However, the estimated transaction costs of the disposal of Great Captain would be approximately HK\$3.0 million. The actual gain on completion of the Disposal Agreement might be different given that the above estimate is based on the financial information of the Group as at 31 December 2016 which might be different from those on the Completion Date.

Following the Disposal Completion, Great Captain will cease to be a subsidiary of the Company, and its financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group. The Group expects that the effect on earnings will approximate to the net dividend income, which will no longer be contributed to the Group after completion of the Disposal Agreement. Great Captain had outstanding Bank Loan of approximately HK\$288.4 million as at 31 December 2016. The Bank Loan may or may not be fully repaid prior to completion of the Disposal Agreement. In any event, the level of borrowings of the Group shall be reduced after completion of the Disposal Agreement. As explained above, it is estimated that the Group will record a gain on disposal and the consolidated net asset value of the Group will increase accordingly. It is also expected that the Group's total assets will increase by approximately HK\$1,949.1 million while total liabilities will decrease by approximately HK\$288.4 million following the Disposal Completion.

With respect to the accounting treatment of Great Captain under the Partial Completion arrangement, according to the accounting policies of the Group, Great Captain will only cease to be a subsidiary of the Company when the Company loses control over Great Captain. As the terms of the Disposal Agreement provide that the current directors of Great Captain as nominated by the Company will not resign until Completion or Final Completion, and the Purchaser confirmed that unless and until Completion or Final Completion, it will not appoint any director to the board of directors of Great Captain, the Vendor will retain control of Great Captain and Great Captain will remain and continue to be accounted as a subsidiary of the Company until Completion or Final Completion, regardless of whether any Partial Completion occurs or not.

LETTER FROM THE BOARD

C. INFORMATION OF THE GROUP AND THE VENDOR

The Group is principally engaged in the business of property investment and development, brokerage, securities investment, money lending and cosmetics distribution and trading.

The Vendor is an investment holding company incorporated in Hong Kong and is a direct wholly-owned subsidiary of the Company.

D. INFORMATION OF THE PURCHASER

The Purchaser is an investment holding company incorporated in the BVI and is wholly-owned and used by Ms. Chan, Hoi-wan for the purpose of holding the assets to be acquired under the Disposal Agreement.

E. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTION

In May 2016, the Group acquired 577,180,500 SJB Shares at a consideration of approximately HK\$6,926.2 million included in financial assets measured at FVTOCI. The purchase price of each SJB Share of HK\$12.0 (the “**Purchase Cost**”) was roughly equivalent to the then market price of the SJB Shares, which had been rising moderately. Thereafter, the movement of the share price of Shengjing Bank has experienced an overall persistent decreasing trend. As at the Latest Practicable Date, the closing price of each SJB Share on the Stock Exchange was HK\$6.98, representing a discount of approximately 41.8% as compared to the Purchase Cost. The Group believes that the plummet in market price of the SJB Shares since the acquisition was, among other things, because of the slowdown in the PRC economic growth as well as the challenging environment on risk management in the PRC banking industry. The PRC banking industry may face challenges as a result of the reduction of local enterprises’ debt burdens. With reference to a research report published by Moody’s Investors Service, a renowned provider of credit ratings, research, and risk analysis, in December 2016, PRC banks’ performance may also be hindered by factors such as weaker demand for corporate loans, slower economic growth and increase in corporate sector restructuring and deleveraging.

During the year ended 31 December 2016, Great Captain recorded after-expenses dividend income of approximately HK\$189.1 million. After adjusting elimination of inter-company expenses of approximately HK\$0.5 million, the after-expenses dividend income was approximately HK\$189.6 million (being aggregate of HK\$189.1 million and HK\$0.5 million), and further deducting the withholding tax of approximately HK\$19.1 million, the net dividend income of approximately HK\$170.5 million was recognised in the consolidated statement of comprehensive income of the Group. Nevertheless, due to the plummet in market price of the SJB Shares, an unrealised loss on fair value change, which is a non-cash item and will not affect the cash flow of the Group, of approximately HK\$2,366.5 million was recorded as an other comprehensive expense, and the carrying amount of listed equity investment (i.e. the SJB Shares held by the Group) categorised as financial assets measured at FVTOCI as at 31 December 2016 was approximately HK\$4,559.7 million.

Up to the date of the Disposal Agreement, the Purchaser was the only party interested in the relevant SJB Shares without discount to the Purchase Cost which made an offer to the Company for the purchase of the Sale Shares. Based on the above, the Board considers that the Disposal Transaction, which in substance allows the Group to realise its investment in the SJB Shares at the Purchase Cost, presents a timely opportunity for the Group to reconsolidate its existing investment portfolio and re-assess the corresponding risk exposure.

LETTER FROM THE BOARD

F. USE OF PROCEEDS

Assuming no Partial Completion is to be made and determination of the Consideration is based on the financial information of the Group as at 31 December 2016, it is estimated that the net sale proceeds arising from the Disposal Transaction would amount to approximately HK\$6,508.8 million after deducting the transaction costs related to the Disposal Transaction of approximately HK\$3.0 million.

Subject to the then business, financial and cashflow position of the Group and assuming that the Disposal Transaction would be approved by the Independent Shareholders at the SGM, it is currently intended that the Company may declare payment of the Special Dividend to the Shareholders after the Condition Precedent has been fulfilled, the record date of which shall fall before the Completion Date or the Final Completion Date. Normally, at least 26 Business Days are required to attend to the procedural steps for payment of the Special Dividend to the Shareholders. Those procedural steps include publication of an announcement for notification of the Board meeting pursuant to Rule 13.43 of the Listing Rules which must be given at least 7 clear Business Days before the Board meeting, convening the Board meeting to consider the declaration of the Special Dividend, publication of an announcement regarding the book close pursuant to Rule 13.66(1) of the Listing Rules which must be given at least 10 Business Days before book closure, and notifying the share registrar to arrange for the book closure which usually requires about 8 Business Days and the dividend cheques. Due to such specific timeframe, the Company would be given greater flexibility to make declaration of the Special Dividend before the Disposal Completion such that the Special Dividend may be available for distribution to the Shareholders once the Disposal Completion takes place. The Company believes that an appropriate and smooth completion of the payment procedures of the intended Special Dividend immediately following the Disposal Completion would be beneficial to and meet the Shareholders' general expectations of receiving the Special Dividend on or after the Disposal Completion. It would also allow the Company, by ascertaining the Group's cashflow position and financial condition at the post-dividend stage, to timely return its focus on its core business and/or future development when the fund-flows arising from the Disposal Transaction are duly settled. The Special Dividend may be paid to the Shareholders on or after the Completion Date or the Final Completion Date in one or more phases using the aggregate amount approximate to but not more than the net sale proceeds which will be generated from the Disposal Transaction. The remaining net sale proceeds from the Disposal Transaction will be applied as general working capital, mainly for the payment of the operating expenses, of the Group.

In the event that the Disposal Agreement is not completed after the declaration of the Special Dividend, the Company, for the interest of all Shareholders, currently intended that it will still proceed with payment of such Special Dividend out of the Group's retained profits in compliance with applicable laws and regulations. Since the Special Dividend (if so declared) will be made voluntarily by the Company in compliance with applicable laws and regulations, in the event that Completion does not take place after declaration of the Special Dividend, no damages will be sought by the Company from the Purchaser under the Disposal Agreement in relation to such declaration of the Special Dividend. If the Disposal Completion does not take place and the Company proceeds with the payment of such Special Dividend, it will result in a decrease in working capital, total assets and net assets of the Group. The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the present facilities available and also the effect of the Disposal Transaction, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances. In view of that (i) the Special Dividend will be declared to the Shareholders after the Condition Precedent has been fulfilled and there is high certainty that completion of the Disposal Transaction will take place; (ii) payment of the Special Dividend to all Shareholders is fair and beneficial to all Shareholders; and (iii) there is no imminent mega property development project which requires substantial cash investment in the near future, the Board considers that the Special Dividend arrangement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Board (excluding Ms. Chan, Hoi-wan, Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Mr. Lau, Ming-wai who will be required to abstain from voting) will take into account the then business, financial and cashflow position of the Group at that point in time and the progress of the development of the Disposal Transaction before any Special Dividend is proposed and declared. In the event that the Board decides not to pay any Special Dividend, the net sale proceeds will be applied for general working capital purposes of its existing business and the Group will continue to closely monitor market changes and make investments when suitable opportunities arrive but no such opportunity had been identified and confirmed as at the Latest Practicable Date. Further announcement regarding any proposal of the Special Dividend will be made by the Company as and when appropriate.

G. LISTING RULES IMPLICATION FOR THE DISPOSAL TRANSACTION

As the Disposal Agreement was entered into within 12 months after completion of the Previous Disposal Agreements respectively, and all such agreements were entered into by the Company with the same connected person and/or her associates, the Disposal Transaction and the Previous Transactions are required to be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal Transaction (when aggregated with the Previous Transactions) exceed 25% but are less than 75%, the Disposal Transaction constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Ms. Chan, Hoi-wan is an executive Director and a substantial shareholder who (as trustee for her two minor children) indirectly held approximately 50.02% of the total issued share capital of the Company as at the Latest Practicable Date, and she is also a director and the sole beneficial owner of the Purchaser, Ms. Chan, Hoi-wan and the Purchaser are connected persons of the Company. Accordingly, the Disposal Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Ms. Chan, Hoi-wan (who is a director and the sole beneficial owner of the Purchaser) has a material interest in the Disposal Transaction, she has abstained from voting on the Board resolutions approving the Disposal Agreement and the Disposal Transaction. The associates of Ms. Chan, Hoi-wan, namely, Ms. Chan, Sze-wan (who is a director of the Purchaser), Ms. Chan, Lok-wan and Mr. Lau, Ming-wai (who is a director and the sole shareholder of Century Frontier) (if present at the relevant meeting) have abstained from voting on the Board resolutions approving the Disposal Agreement and the Disposal Transaction notwithstanding that none of them has a material interest in the Disposal Transaction. Save as disclosed above, no other Directors abstained from voting on the Board resolutions approving the Disposal Agreement and the Disposal Transaction.

LETTER FROM THE BOARD

H. THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the three independent non-executive Directors, namely Mr. Chan, Kwok-wai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun, has been formed to advise the Independent Shareholders in relation to the Disposal Agreement and the Disposal Transaction.

The Company has, with the approval of the Independent Board Committee, appointed Gram Capital as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in accordance with the requirements under the Listing Rules to advise the Independent Board Committee and the Independent Shareholders regarding the Disposal Agreement and the Disposal Transaction.

I. SGM

The Company will convene the SGM at Falcon Room, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 4 May 2017 at 10:00 a.m. to consider the Disposal Agreement and the Disposal Transaction. An ordinary resolution will be put to the vote by poll at the SGM pursuant to the Listing Rules. A notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular.

Any Shareholder with a material interest in the Disposal Transaction and his/her/its associate(s) are required to abstain from voting on the resolution approving the Disposal Agreement and the Disposal Transaction in accordance with the Listing Rules.

Further, pursuant to the Stock Exchange Undertaking, the Company has undertaken to the Stock Exchange that it will not enter into Specified Transaction with a Related Party which is for a consideration or in respect of a principal amount which, when aggregated with the consideration or principal amount of any other Specified Transaction(s) between the Company or any of its subsidiaries and any Related Party carried into effect during the previous 12 months, exceed HK\$200 million, unless the approval of the Shareholders at a general meeting of the Company at which the Related Party will abstain from voting is obtained. As Ms. Chan, Hoi-wan is an executive Director and a substantial shareholder (as trustee for her two minor children) and is a director and the sole beneficial owner of the Purchaser, each of Ms. Chan, Hoi-wan and the Purchaser is a Related Party for the purpose of the Stock Exchange Undertaking. The Disposal Transaction will therefore constitute a Specified Transaction and will be subject to approval by the Shareholders at a general meeting of the Company at which any Shareholder who is a Related Party will abstain from voting.

LETTER FROM THE BOARD

In view of the above requirements of the Listing Rules and the Stock Exchange Undertaking, to the best knowledge of the Company, as at the Latest Practicable Date, ten Shareholders who held an aggregate of 1,643,603,917 Shares, representing approximately 86.15% of the total issued Shares, will be required to abstain from voting on the resolution approving the Disposal Agreement and the Disposal Transaction. Out of the aforesaid 1,643,603,917 Shares, (i) Ms. Chan, Hoi-wan (as trustee for her two minor children) was deemed to be interested in an aggregate of 954,275,768 Shares (where 723,290,948 Shares were held by Solar Bright and 230,984,820 Shares were held by JLLHIL), representing approximately 50.02% of the total issued Shares; (ii) 476,425,000 Shares, representing approximately 24.97% of the total issued Shares were held by Century Frontier; and (iii) the remaining 212,903,149 Shares, representing approximately 11.16% of the total issued Shares, were held by an associate of Ms. Chan, Hoi-wan and two Related Parties (personally and/or through their controlled company(ies)). None of the Shareholders holding the aforesaid 212,903,149 Shares is a core connected person (as defined under the Listing Rules) of the Company and none of the Shareholders holding the aforesaid 212,903,149 Shares is a close associate of Ms. Chan, Hoi-wan.

A form of proxy for use at the SGM is also enclosed. If you are not able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

J. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages IBC-1 to IBC-2 of this circular and the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in connection with the Disposal Agreement and the Disposal Transaction as well as the principal factors and reasons considered by it in arriving at such advice set out on pages IFA-1 to IFA-15 of this circular.

The Board (including the independent non-executive Directors whose views are set out on pages IBC-1 to IBC-2 of this circular having taken into account the opinion and advice of Gram Capital) considers that the terms of the Disposal Agreement and the Disposal Transaction are fair and reasonable so far as the Independent Shareholders are concerned, and the Disposal Agreement and the Disposal Transaction are on normal commercial terms and in the ordinary and usual course of business of the Group, as well as in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the resolution approving the Disposal Agreement and the Disposal Transaction at the SGM.

LETTER FROM THE BOARD

K. GENERAL

Shareholders and potential investors of the Company should note that completion of the Disposal Agreement (including any Partial Completion) is subject to the satisfaction of the Condition Precedent, namely, the obtaining of the approval of the Independent Shareholders at the SGM in respect of the Disposal Agreement and the Disposal Transaction. Therefore, the Disposal Transaction may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

L. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Lam, Kwong-wai
Executive Director and Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular:



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

13 April 2017

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RESPECT OF DISPOSAL OF A SUBSIDIARY

We refer to the circular issued by the Company to its Shareholders dated 13 April 2017 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

As the Disposal Agreement was entered into within 12 months after the completion of the Previous Disposal Agreements respectively, and all such agreements were entered into by the Company with the same connected person and/or her associates, the Disposal Transaction and the Previous Transactions are required to be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal Transaction (when aggregated with the Previous Transactions) exceed 25% but are less than 75%, the Disposal Transaction constitutes a major transaction for the Company. The Disposal Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As such, the Disposal Transaction is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under the Listing Rules.

We have been appointed by the Board to consider the terms of the Disposal Agreement and the Disposal Transaction and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, the terms of the Disposal Agreement and the Disposal Transaction are fair and reasonable, and whether the Disposal Agreement and the Disposal Transaction are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as independent financial adviser to advise us in this respect.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board and the letter from Gram Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the opinion and advice of, Gram Capital as set out in its letter of advice, we consider that the terms of the Disposal Agreement and the Disposal Transaction are fair and reasonable, and the Disposal Agreement and the Disposal Transaction are on normal commercial terms, in the ordinary and usual course of business of the Group. In view of the above, we consider that the Disposal Agreement and the Disposal Transaction are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the Disposal Agreement and the Disposal Transaction at the SGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Chan, Kwok-wai

Phillis Loh, Lai-ping

Ma, Tsz-chun

Independent Non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreement and the Disposal Transaction for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

13 April 2017

*To: The independent board committee and the independent shareholders
of Chinese Estates Holdings Limited*

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF A SUBSIDIARY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreement and the Disposal Transaction, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 13 April 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 15 March 2017, the Vendor and the Company entered into the Disposal Agreement with the Purchaser and Ms. Chan, Hoi-wan (“**Ms. Chan**”) as the guarantor of the Purchaser in relation to the sale and purchase of the Sale Shares and the Sale Loan. The Sale Shares represent the entire issued share capital of Great Captain. The principal asset of Great Captain is its interest in 577,180,500 SJB Shares. Upon the Disposal Completion, Great Captain will cease to be a subsidiary of the Company.

With reference to the Board Letter, the Disposal Transaction constitutes a major and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules respectively. As such, the Disposal Transaction is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under the Listing Rules. Moreover, the Disposal Transaction constitutes a Specified Transaction and is subject to approval by the Shareholders at a general meeting of the Company at which any Shareholder who is a Related Party will abstain from voting.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Chan, Kwok-wai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Disposal Agreement and the Disposal Transaction are fair and reasonable; (ii) whether the Disposal Agreement and the Disposal Transaction are on normal commercial terms; (iii) whether the Disposal Agreement and the Disposal Transaction are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iv) how the Independent Shareholders should vote in respect of the resolution to approve the Disposal Agreement and the Disposal Transaction at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Disposal Transaction. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Great Captain, the Vendor, the Purchaser and Ms. Chan or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal Agreement and the Disposal Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

LETTER FROM GRAM CAPITAL

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Disposal Agreement and the Disposal Transaction, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Disposal Transaction

Information on the Group

The Group is principally engaged in the business of property investment and development, brokerage, securities investment, money lending and cosmetics distribution and trading.

Set out below are the latest key audited financial information of the Group as extracted from the Company's final results announcement for the year ended 31 December 2016:

	For the year ended 31 December 2016 HK\$'000
Revenue	3,745,148
– Property rental income	823,856
– Sales of properties held for sale	2,943,434
– Loss on sales of investments held-for-trading, net	(37,434)
– Brokerage and cosmetic income	15,240
– Interest income from loan financing	52
Investment income, net	3,038,649
Profit for the year	6,693,189
	As at 31 December 2016 HK\$'000
Financial assets measured at fair value through profit or loss (non-current)	373,050
Financial assets measured at fair value through profit or loss (current)	14,642,623
Financial assets measured at FVTOCI (non-current)	5,442,591
Total assets	45,775,735
Total equity	29,899,855

LETTER FROM GRAM CAPITAL

Business review of the Group

During the year ended 31 December 2016 (“FY2016”), the Group’s revenue comprised (i) property rental income; (ii) sales of properties held for sale; (iii) loss on sales of investments held-for-trading on a net basis; (iv) brokerage and cosmetic income; and (v) interest income from loan financing.

Apart from the property development and trading segment and the property leasing segment, being the two major business segments of the Group, the Group has in the ordinary and normal course of business conducted its securities investment activities.

In May 2016, the Group (through Great Captain) acquired 577,180,500 SJB Shares at the Initial Investment Costs of HK\$6,926,166,000. After deducting an unrealised loss on fair value change of approximately HK\$2,366.5 million for FY2016, the carrying amount of listed equity investment (i.e. the SJB Shares held by the Group) categorised as financial assets measured at FVTOCI as at 31 December 2016 was approximately HK\$4,559.7 million.

As at 31 December 2016, the Group’s portfolio of listed securities investments and treasury products of approximately HK\$19,512.6 million comprised:

- (a) bonds categorised as financial assets measured at fair value through profit or loss of approximately HK\$14,952.9 million which were issued by financial institutions, PRC-based real estate companies and other industries; and
- (b) listed equity investment (i.e. the SJB Shares held by the Group) of approximately HK\$4,559.7 million categorised as financial assets measured at FVTOCI.

In addition, the Group had committed to make a capital contribution of US\$100.0 million (equivalent to approximately HK\$775.5 million) in an exempted limited partnership formed under the Exempted Limited Partnership Law (Revised) of the Cayman Islands (the “**Cayman Partnership**”). As at 31 December 2016, the Group has contributed approximately US\$83.8 million (equivalent to approximately HK\$649.8 million) in the Cayman Partnership (the “**Cayman Partnership Investment**”). The carrying amount of the Cayman Partnership Investment was approximately HK\$584.5 million as at 31 December 2016.

Information on the Vendor

With reference to the Board Letter, the Vendor is an investment holding company incorporated in Hong Kong and is a direct wholly-owned subsidiary of the Company.

Information on the Purchaser

With reference to the Board Letter, the Purchaser is an investment holding company incorporated in the BVI and is wholly-owned and used by Ms. Chan for the purpose of holding the assets to be acquired under the Disposal Agreement.

LETTER FROM GRAM CAPITAL

Information on Great Captain

With reference to the Board Letter, Great Captain is an investment holding company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company. The principal asset of Great Captain is its interest in 577,180,500 SJB Shares. The 577,180,500 SJB Shares held represented approximately 9.96% of the total issued share capital of Shengjing Bank as at 31 March 2017.

Set out below is the unaudited financial information of Great Captain for each of the two years ended 31 December 2016 prepared in accordance with HKFRSs:

	For the year ended 31 December 2015 (HK\$'000)	For the year ended 31 December 2016 (HK\$'000)
(Loss)/profit before tax	(7)	190,889
(Loss)/profit after tax	(7)	171,772

As at 31 December 2016, the unaudited net liability of Great Captain was approximately HK\$2,194.7 million and the amount of the Sale Loan was approximately HK\$6,466.0 million.

Information on Shengjing Bank

Shengjing Bank is a joint stock company and a commercial bank established in the PRC and is principally engaged in corporate banking, retail banking and treasury businesses. The SJB Shares are listed on the main board of the Stock Exchange.

According to the published consolidated financial statements of Shengjing Bank, the audited consolidated financial results of Shengjing Bank for each of the three years ended 31 December 2016 are as follows:

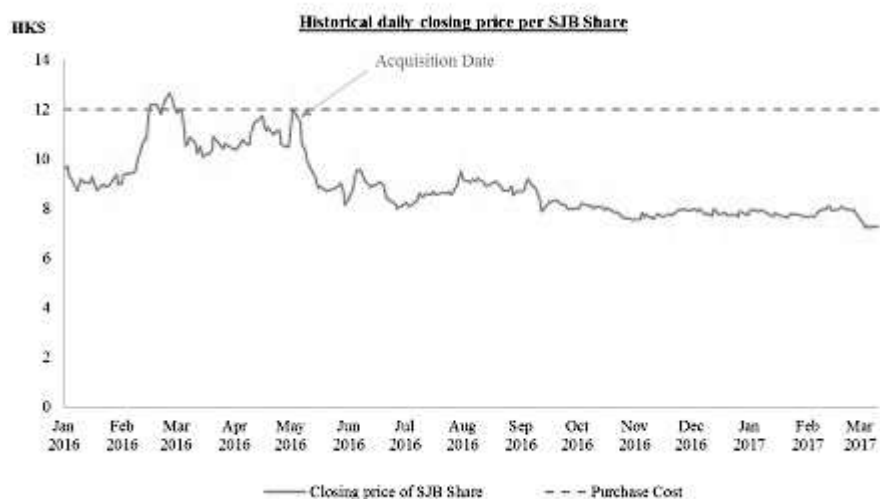
	For the year ended 31 December 2014 (RMB'000)	For the year ended 31 December 2015 (RMB'000)	For the year ended 31 December 2016 (RMB'000)
Profit before tax	7,061,063	8,126,617	8,707,867
Profit after tax	5,423,838	6,223,827	6,878,292

The audited consolidated net asset value of Shengjing Bank as at 31 December 2016 was approximately RMB46,374.6 million.

As depicted above, the profit after tax of Shengjing Bank amounted to approximately RMB6,223.8 million and RMB6,878.3 million for the year ended 31 December 2015 and FY2016 respectively, representing an increase of approximately 14.75% (“**2015 Growth Rate**”) and 10.52% (“**2016 Growth Rate**”) respectively compared to the respective previous year. The 2016 Growth Rate was lower than the 2015 Growth Rate. With reference to the annual report of Shengjing Bank for FY2016, the international economy is going through a thorough adjustment, where the slow economic growth is continuing, and regional and global challenges are frequently happening. In the meantime, the domestic economy is experiencing slow growth, and the transformation of profound adjustment in economic structure and changes in economic driving force is still going on. Under the influence of multiple complicated factors such as intensifying competition in the finance industry, tightened financial regulation and impact from internet finance, the risk control, business innovation and strategic transformation of commercial banks are confronting challenges and tests.

LETTER FROM GRAM CAPITAL

We have reviewed the daily closing price of the SJB Shares as quoted on the Stock Exchange from 4 January 2016 up to and including 14 March 2017 (the “**Last Trading Day**”), being the last trading day prior to the date of the Disposal Agreement (the “**Review Period**”). The comparison of daily closing prices of the SJB Shares and the Purchase Cost is illustrated as follows:



Source: Bloomberg

During the Review Period, the lowest and highest closing prices of the SJB Share as quoted on the Stock Exchange were HK\$7.20 recorded on 7 March 2017 and HK\$12.60 recorded on 29 February 2016 and 1 March 2016. The Purchase Cost is (i) close to the highest closing price of the SJB Share during the Review Period; and (ii) above or equal to the closing price of the SJB Share in 286 trading days out of the total 294 trading days during the Review Period.

The closing prices of the SJB Share were on an increasing trend from January 2016 to March 2016. After the closing prices of SJB Share reached their peak on 29 February 2016 and 1 March 2016, the closing prices of SJB Share fluctuated between HK\$10.08 and HK\$12.34 from 2 March 2016 to 6 May 2016. Thereafter, the closing prices of the SJB Share were on a general decreasing trend and reached HK\$7.26 on the Last Trading Day.

LETTER FROM GRAM CAPITAL

Reasons for the Disposal Transaction and use of proceeds

Reasons for the Disposal Transaction

With reference to the Board Letter, in May 2016, the Group acquired 577,180,500 SJB Shares at a consideration of approximately HK\$6,926.2 million included in financial assets measured at FVTOCI. The Purchase Cost of each SJB Share of HK\$12.0 was roughly equivalent to the then market price of the SJB Shares, which had been rising moderately. Thereafter, the movement of the share price of Shengjing Bank has experienced an overall persistent decreasing trend. As at the Latest Practicable Date, the closing price of each SJB Share on the Stock Exchange was HK\$6.98, representing a discount of approximately 41.8% as compared to the Purchase Cost. The Group believes that the plummet in market price of the SJB Shares since the acquisition was, among other things, because of the slowdown in the PRC economic growth as well as the challenging environment on risk management in the PRC banking industry. The PRC banking industry may face challenges as a result of the reduction of local enterprises' debt burdens. With reference to a research report published by Moody's Investors Service, a renowned provider of credit ratings, research, and risk analysis, in December 2016, PRC banks' performance may also be hindered by factors such as weaker demand for corporate loans, slower economic growth and increase in corporate sector restructuring and deleveraging.

During the year ended 31 December 2016, Great Captain recorded after-expenses dividend income of approximately HK\$189.1 million. After adjusting elimination of inter-company expenses of approximately HK\$0.5 million, the after-expenses dividend income was approximately HK\$189.6 million (being aggregate of HK\$189.1 million and HK\$0.5 million), and further deducting the withholding tax of approximately HK\$19.1 million, the net dividend income of approximately HK\$170.5 million was recognised in the consolidated statement of comprehensive income of the Group. Nevertheless, due to the plummet in market price of the SJB Shares, an unrealised loss on fair value change, which is a non-cash item and will not affect the cash flow of the Group, of approximately HK\$2,366.5 million was recorded as an other comprehensive expense, and the carrying amount of listed equity investment (i.e. the SJB Shares held by the Group) categorised as financial assets measured at FVTOCI as at 31 December 2016 was approximately HK\$4,559.7 million.

As illustrated under the section headed "Information on Shengjing Bank" above, the profit before and after tax of Shengjing Bank was improved during the three years ended 31 December 2016. Nevertheless, (i) the closing prices of the SJB Share were on a general decreasing trend from the Acquisition Date to the Last Trading Day; (ii) the Purchase Cost is close to the highest closing price of the SJB Share during the Review Period; and (iii) the Purchase Cost is above or equal to the closing price of the SJB Share in 286 trading days out of the total 294 trading days during the Review Period.

Based on the above, the Board considers that the Disposal Transaction, which in substance allows the Group to realise its investment in the SJB Shares at the Purchase Cost, presents a timely opportunity for the Group to reconsolidate its existing investment portfolio and re-assess the corresponding risk exposure.

LETTER FROM GRAM CAPITAL

Use of proceeds

With reference to the Board Letter, assuming no Partial Completion is to be made and determination of the Consideration is based on the financial information of the Group as at 31 December 2016, it is estimated that the net sale proceeds arising from the Disposal Transaction would amount to approximately HK\$6,508.8 million (the “**Estimated Proceeds**”) after deducting the transaction costs related to the Disposal Transaction of approximately HK\$3.0 million.

Subject to the then business, financial and cashflow position of the Group and assuming that the Disposal Transaction would be approved by the Independent Shareholders at the SGM, it is currently intended that the Company may declare payment of the Special Dividend to the Shareholders after the Condition Precedent has been fulfilled, the record date of which shall fall before the Completion Date or the Final Completion Date. Normally, at least 26 Business Days are required to attend to the procedural steps for payment of the Special Dividend to the Shareholders. Those procedural steps include publication of an announcement for notification of the Board meeting pursuant to Rule 13.43 of the Listing Rules which must be given at least 7 clear Business Days before the Board meeting, convening the Board meeting to consider the declaration of the Special Dividend, publication of an announcement regarding the book close pursuant to Rule 13.66(1) of the Listing Rules which must be given at least 10 Business Days before book closure, and notifying the share registrar to arrange book close which usually requires about 8 Business Days and the dividend cheques. Due to such specific timeframe, the Company would be given greater flexibility to make declaration of the Special Dividend before the Disposal Completion such that the Special Dividend may be available for distribution to the Shareholders once the Disposal Completion takes place. The Company believes that an appropriate and smooth completion of the payment procedures of the intended Special Dividend immediately following the Disposal Completion would be beneficial to and meet the Shareholders’ general expectations of receiving the Special Dividend on or after the Disposal Completion. It would also allow the Company, by ascertaining the Group’s cashflow position and financial condition at the post-dividend stage, to timely return its focus on its core business and/or future development when the fund-flows arising from the Disposal Transaction are duly settled. The Special Dividend may be paid to the Shareholders on or after the Completion Date or the Final Completion Date in one or more phases using the aggregate amount approximate to but not more than the net sale proceeds which will be generated from the Disposal Transaction. The remaining net sale proceeds from the Disposal Transaction will be applied as general working capital, mainly for the payment of the operating expenses, of the Group. In the event that the Disposal Agreement is not completed after the declaration of the Special Dividend, the Company, for the interest of all Shareholders, currently intended that it will still proceed with payment of such Special Dividend out of the Group’s retained profits in compliance with applicable laws and regulations.

LETTER FROM GRAM CAPITAL

The Board (excluding Ms. Chan, Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Mr. Lau, Ming-wai who will be required to abstain from voting) will take into account the then business, financial and cashflow position of the Group at that point in time and the progress of the development of the Disposal Transaction before any Special Dividend is proposed and declared. In the event that the Board decides not to pay any Special Dividend, the net sale proceeds will be applied for general working capital purposes of its existing business and the Group will continue to closely monitor market changes and make investments when suitable opportunities arrive but no such opportunity had been identified and confirmed as at the Latest Practicable Date.

Taking into account that (i) the unsatisfactory SJB Share price performance during the Review Period as compared to the Purchase Cost; (ii) the closing price of the SJB Share as at the Last Trading Day was well below the Purchase Cost; (iii) the Disposal Transaction allows the Group to realise its investment in the SJB Shares at the Purchase Cost and presents a timely opportunity for the Group to reconsolidate its existing investment portfolio and re-assess the corresponding risk exposure; and (iv) the possible distribution of the Special Dividend using the net sale proceeds from the Disposal Transaction would be beneficial to the Shareholders, we concur with the Directors that the Disposal Transaction and the Special Dividend arrangement are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the Disposal Agreement

On 15 March 2017, the Vendor and the Company entered into the Disposal Agreement with the Purchaser and Ms. Chan as the guarantor of the Purchaser in relation to the sale and purchase of the Sale Shares and the Sale Loan.

Under the terms of the Disposal Agreement, the Vendor has agreed to transfer the Sale Shares and assign the Sale Loan to the Purchaser free from all Encumbrances (where the Bank Consents have been obtained, save for any Encumbrances created by the Bank Loan Documents) and with all dividends, benefits and other rights becoming attached or accruing thereto as from the date(s) of completion of sale of the Sale Shares and the Sale Loan (or any part thereof).

In consideration of the Purchaser and Ms. Chan entering into the Disposal Agreement, the Company has agreed to guarantee the performance by the Vendor of its obligations under the Disposal Agreement. In consideration of the Vendor and the Company entering into the Disposal Agreement, Ms. Chan has agreed to guarantee the performance by the Purchaser of its obligations under the Disposal Agreement.

The Sale Shares represented the entire issued share capital of Great Captain, the principal asset of which is the 577,180,500 SJB Shares and is recorded as financial assets measured at FVTOCI in the consolidated financial statements of the Group. As at 31 December 2016, the carrying amount of SJB Shares held by the Group, the unaudited net liability of Great Captain and the amount of the Sale Loan were approximately HK\$4,559.7 million, HK\$2,194.7 million and HK\$6,466.0 million respectively.

LETTER FROM GRAM CAPITAL

Completion and Partial Completion

Pursuant to the Disposal Agreement, the parties agreed that in addition to completing the sale and purchase of all the Sale Shares and the Sale Loan in one go at the same time, the Purchaser shall be entitled to request for Partial Completion through different stages, subject to the Condition Precedent having been satisfied and the obtaining of the Bank Consents required for such Partial Completion. If no Partial Completion is to be made, Completion shall take place on the Completion Date.

With reference to the Board Letter, the Partial Completion was the result of arm's length negotiations between the parties to the Disposal Agreement and provides the parties with the flexibility to complete the Disposal Transaction in stages. The Partial Completion would provide the Purchaser with greater flexibility in arranging financing for the transaction whilst allowing the Vendor to realise its investment earlier through completing the Disposal Transaction in stages (as confirmed by the Company, the Partial Consideration shall be payable by cash).

The Partial Consideration payable by the Purchaser to the Vendor under each Partial Completion is proportional to the number of Sale Shares sold under such Partial Completion. If the Purchaser fails to proceed with the Final Completion, apart from damages payable by the Purchaser to the Vendor in accordance with the terms of the Disposal Agreement, the position of the Vendor is further protected by the Unwinding arrangement under the Disposal Agreement. Details of the Unwinding arrangement (including its mechanism) are set out under the paragraph headed "Completion and Partial Completion" in the section headed "The Disposal Agreement" of the Board Letter.

Accordingly, we concur with the Directors' view that the Partial Completion arrangement will allow the Vendor to realise its investment in the underlying SJB Shares earlier and is on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

The Consideration

Where there is no Partial Completion, the Consideration payable by the Purchaser for all the Sale Shares and the Sale Loan shall be calculated as follows and subject to a maximum amount equal to the cap of HK\$7,000 million:

$$\text{The Consideration} = A + B - C - D - E$$

where:

A = the Initial Investment Costs

LETTER FROM GRAM CAPITAL

- B = the total amount of notional interests on the Net Investment Amount (which may vary from time to time) accruing on a daily basis from the Acquisition Date up to the Completion Date calculated at the rate of 1% per annum on the basis of the actual number of days elapsed and a year of 365 days from and including the first day of such period but excluding the last day thereof (the “**Interests Amount**”)
- C = the total amount of dividends income or distributions (net of any withholding tax and any related transaction costs) which have so far, from the Acquisition Date up to and inclusive of the time of Completion, been received by Great Captain arising from its holding of the SJB Shares (the “**Dividend Amount**”)
- D = the total amount of all those sale proceeds (net of any related transaction costs) arising from Great Captain’s disposals of its SJB Shares effected at the request of the Purchaser which have, up to and inclusive of the time of Completion, been applied to repay the Sale Loan and/or the Bank Loan or any part thereof (the “**Sale Proceeds Amount**”)
- E = the outstanding amount of the Bank Loan as of the Completion Date (the “**Loan Amount**”)

With reference to the Board Letter and as advised by the Directors, for illustration purpose only, (i) the Initial Investment Costs amounted to HK\$6,926,166,000; (ii) the Interests Amount was approximately HK\$44.0 million up to 31 December 2016 (including the first day but excluding the last day); (iii) the Dividend Amount was approximately HK\$170.0 million up to 31 December 2016; (iv) the Sale Proceeds Amount was nil up to 31 December 2016; and (v) the Loan Amount was approximately HK\$288.4 million as at 31 December 2016. Based on the above, the Consideration is estimated to be approximately HK\$6,511.8 million and the Estimated Proceeds will be approximately HK\$6,508.8 million after deducting the transaction costs related to the Disposal Transaction of approximately HK\$3.0 million.

If and whenever there is any Partial Completion, each Partial Consideration and the Final Consideration shall be calculated and ascertained in the manner set out under the paragraph headed “Consideration” in the section headed “The Disposal Agreement” of the Board Letter.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Consideration was formulated to allow the Group to restore its original position before its acquisition of the 577,180,500 SJB Shares, which the Board considers to be advantageous to the Company having considered the overall persistent decreasing trend of the SJB Share price. The Consideration also took into account the interest (at the rate of 1% per annum which is comparable to the interest rates of the Group's existing bank deposits) that the Group would have received had the Net Investment Amount been deposited in bank. We also understand from the Directors that the underlying rationale of that the aforesaid formulae for determining the Consideration (or the Partial Consideration and the Final Consideration as the case may be) allow the Group to realise its investment in the SJB Shares at the Purchase Cost together with the Interests Amount. Hence, it is reasonable for the Group to forfeit the Dividend Amount and the Dividend Amount to be deducted from the calculation. Given also that the Loan Amount is not part of the Initial Investment Costs and Great Captain has to repay the same (if any), it is reasonable for the Loan Amount to be deducted from the calculation.

In view of the above basis for calculation of the Consideration (or the Partial Consideration and the Final Consideration as the case may be) and that the Purchase Cost is (i) close to the highest closing price of the SJB Share during the Review Period; and (ii) above or equal to the closing price of the SJB Share in 286 trading days out of the total 294 trading days during the Review Period, we consider the aforesaid formulae for calculation the Consideration (or the Partial Consideration and the Final Consideration as the case may be) to be fair and reasonable so far as the Independent Shareholders are concerned.

With reference to the Board Letter, the parties to the Disposal Agreement agreed to cap the Consideration at HK\$7,000 million as a result of negotiation to ensure commercial certainty. The cap represents the maximum estimated amount of the Consideration under the scenario that the Interests Amount would be approximately HK\$111.2 million, assuming the Disposal Completion will take place on 29 December 2017 (being the last Business Day for the Disposal Completion to take place); Dividend Amount would be approximately HK\$170.0 million, assuming no further dividends income or distributions will be received by Great Captain from 31 December 2016 onwards; and the Sale Proceeds Amount and the Loan Amount are the minimum, i.e. nil. On this basis, the maximum estimated amount of the Consideration would be approximately HK\$6,867.4 million. As the cap would be a fairly close estimation of the Consideration, it serves as a reasonable reference to the scale of the Disposal Transaction. Accordingly, we consider the cap to be fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM GRAM CAPITAL

The Deposits

Pursuant to the Disposal Agreement, the Purchaser shall pay to the Vendor the Deposits which will be applied towards settlement of the Consideration at Completion or the Final Consideration at the Final Completion.

The Purchaser may elect to settle the Consideration or the Final Consideration (or any part thereof) by procuring certain Shareholders to apply their Dividend Entitlements, subject to Completion or Final Completion (as the case may be), towards the payment of the Consideration or the Final Consideration and the Company will be authorised and instructed to pay such Dividend Entitlements to the Vendor, in lieu of such Shareholders, to settle the Consideration or the Final Consideration to the extent of the aggregate amount of such Dividend Entitlements (the “**Procurement Arrangement**”).

In view of that (i) the Special Dividend will be entitled to all Shareholders in proportion to their shareholding interests in the Company; (ii) the Group will not be required to pay out the Dividend Entitlements in cash under the Procurement Arrangement; (iii) without the Procurement Arrangement, although the Group will be able to receive cash for the settlement of the Consideration or the Final Consideration, the Group will be required to pay out the Dividend Entitlements in cash; and (iv) the Purchaser is required to settle the amount of Consideration/Final Consideration exceeding the Dividend Entitlements (if any) under the Procurement Arrangement by cash, we consider the Procurement Arrangement to be on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole and fair and reasonable so far as the Independent Shareholders are concerned.

The Sale Arrangement

Subject to and following fulfilment of the Condition Precedent, the Purchaser shall be entitled at any time to give the Vendor a prior written notice requesting it to procure Great Captain to dispose of such number of the SJB Shares held by it at their prevailing market price either through the Stock Exchange or to such other independent third party as shall be acceptable to the Vendor and apply such net sale proceeds arising from such disposal for the sole purpose of repaying the then outstanding Sale Loan and/or the Bank Loan or any part thereof. The Vendor may or may not comply with such request of the Purchaser in full at its sole discretion and may procure Great Captain to sell a lesser number of the SJB Shares than that designated by the Purchaser.

The Company has internal procedures in place (details of which are set out under the paragraph headed “Sale of SJB Shares” in the section headed “The Disposal Agreement” of the Board Letter) for deciding whether or not to procure the sale of the relevant SJB Shares in the event of receipt of such request from the Purchaser (the “**Internal Procedures**”).

LETTER FROM GRAM CAPITAL

Having considered:

- (i) the Purchaser is in substance acquiring the underlying SJB Shares held by Great Captain given that these are the principal assets of Great Captain. In view of the long completion period for the Disposal Transaction, the Purchaser is subject to substantial market risk of volatile price movement in the SJB Shares, which can fluctuate significantly. The Purchaser will become obliged to close the transaction once the Condition Precedent has been satisfied, and will thereupon bear all the risks of the underlying SJB Shares. Given that the Purchaser cannot request the Company to sell such SJB Shares until after the Condition Precedent has been fulfilled, it is fair to afford contractual protection to the Purchaser to allow the Purchaser to request to sell the underlying SJB Shares held by Great Captain to avert any potential risk associated with the SJB Shares;
- (ii) according to the terms of the Disposal Agreement, any proceeds realised from the disposal of such SJB Shares will be retained in Great Captain and may only be applied to repay either the Sale Loan or the Bank Loan. It would be to the Company's advantage to cash in its investment (i.e. through repayment of the Sale Loan out of the proceeds from such disposal) quicker than to wait for final closing;
- (iii) the Sale Arrangement would provide greater flexibilities to the parties. Given that the Vendor is not obliged, and has the sole discretion as to whether or not to comply with any disposal request from the Purchaser, and that any proceeds from the Sale Arrangement will only be retained in Great Captain and may only be applied for the sole purpose of paying down the Sale Loan and/or the Bank Loan and will not be passed on to the Purchaser; and
- (iv) if the Company completed the Sale Arrangement but the Disposal Transaction does not proceed to Disposal Completion as a result of the Purchaser's default, the Vendor is not obliged to complete the Disposal Transaction and may seek damages from the Purchaser,

we consider the Sale Arrangement to be on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole and fair and reasonable so far as the Independent Shareholders are concerned.

Undertakings and indemnity

For the purpose of facilitating the obtaining of the Bank Consents and a release of the CE Guarantees prior to Completion, Partial Completion or Final Completion, each of the Purchaser and Ms. Chan agrees to give and/or procure the provision of such guarantee, indemnity or security as may be reasonably required by the relevant banks or lenders or beneficiaries of the CE Guarantees following or upon such completion to replace the CE Guarantees.

We are of the opinion that the aforesaid undertakings and indemnity would safeguard the interest of the Company and hence are favourable to the Company.

LETTER FROM GRAM CAPITAL

3. Possible financial effects of the Disposal Transaction

As advised by the Directors, following the Disposal Completion, Great Captain will cease to be a subsidiary of the Company, and its financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

According to the Board Letter, it is expected that the Group will record a gain of approximately HK\$2,240.5 million in the consolidated financial statements of the Group upon completion of the Disposal Agreement (subject to audit and adjustment). Such gain is assuming that no Partial Completion is to be made and estimated based on the financial information of the Group as at 31 December 2016. However, the estimated transaction costs of the disposal of Great Captain would be approximately HK\$3.0 million.

The actual gain on completion of the Disposal Agreement might be different given that the above estimate is based on the financial information of the Group as at 31 December 2016 which might be different from that on the Completion Date.

Great Captain had outstanding Bank Loan of approximately HK\$288.4 million as at 31 December 2016. The Bank Loan may or may not be fully repaid prior to completion of the Disposal Agreement. In any event, the level of borrowings of the Group shall be reduced after completion of the Disposal Agreement. It is estimated that the Group will record a gain on disposal and the consolidated net asset value of the Group will increase accordingly. It is also expected that the Group's total assets will increase while total liabilities will decrease following the Disposal Completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Disposal Agreement.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal Agreement and the Disposal Transaction are fair and reasonable; (ii) the Disposal Agreement and the Disposal Transaction are on normal commercial terms, conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Disposal Agreement and the Disposal Transaction, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Company for each of the two years ended 31 December 2014 and 2015 and the final results announcement of the Company for the year ended 31 December 2016 respectively. These annual reports and announcement are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.chineseestates.com>):

- annual report of the Company for the year ended 31 December 2014 published on 16 April 2015 (pages 83 – 248);
- annual report of the Company for the year ended 31 December 2015 published on 18 April 2016 (pages 83 – 240); and
- final results announcement of the Company for the year ended 31 December 2016 published on 9 March 2017 (pages 1 – 27).

2. INDEBTEDNESS STATEMENT**Borrowings**

As at the close of business on 28 February 2017, being the latest practicable date for the purpose of this indebtedness prior to the printing of this circular, the Group had outstanding borrowings as follows:

	28 February 2017 <i>HK\$'000</i>
Secured bank loans	4,480,959
Other secured loans	7,838,522
Amounts due to associates and investee companies	115,069
Amount due to a non-controlling shareholder	49,177
	<hr/>
	12,483,727
	<hr/> <hr/>

The bank loans and the other loans were secured by the Group's investment properties, bonds, listed equity investment measured at FVTOCI, pledged deposits and interests in certain subsidiaries of the Company.

Guarantee

As at 28 February 2017, the Group continued to provide financial guarantee on banking facilities in lieu of the cash public utility deposit jointly utilised by the Company's subsidiaries. Details of the guarantee are as follow:

28 February 2017
HK\$'000

Guarantee given to a bank in respect of banking facilities in lieu of the cash public utility deposit jointly utilised by the Company's subsidiaries	<u><u>15,000</u></u>
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Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business of the Group, as at the close of business on 28 February 2017, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

The Directors confirm that they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published final results announcement of the Company for the year ended 31 December 2016 was made up, up to and including the Latest Practicable Date, except:-

- i. the payment of the special interim dividends of approximately HK\$3,815.2 million in aggregate on 10 February 2017, which had reduced the working capital, total assets and net assets of the Group when compared to those as at 31 December 2016; and
- ii. as disclosed in the announcement of the Company published on 10 February 2017 in respect of the completion of the disposal of subsidiaries of the Company holding, inter alia, the property development situated at No. 12 Shiu Fai Terrace, Mid-Levels East, Hong Kong (the "**Win Kings Disposal**") and certain shops of Lowu Commercial Plaza situated in Shenzhen, the PRC (the "**Pinecrest Disposal**"). Following completion, the relevant subsidiaries' consolidated financial results, assets and liabilities are no longer included in the consolidated financial statements of the Group. For the Win Kings Disposal, it is expected that no material adverse impact would arise from the disposal. For the Pinecrest Disposal, it is expected that the Group's rental revenue and net rental income for the year ending 31 December 2017 will record decrease when compared to those of the year ended 31 December 2016.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the present facilities available and also the effect of the Disposal Transaction, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With the generally unexpected outcome of the presidential election of the United States of America in early November 2016 as well as the potential rise of economic or trade protectionism, the uncertainties surrounding global markets have been intensified; whilst the Federal Reserve in the United States of America decided to raise the target range for the federal funds rate by a quarter percentage point to 0.75% to 1% in March 2017 and a further increase later this year is also anticipated. As a result of such changes in the macro-environment, adverse impact seems to be inevitable.

The residential property market in Hong Kong had been moving upwards for over the past ten years. The Hong Kong government has introduced new measures in November 2016 to curb and control the seemingly overheated residential property market, whereby a new flat rate of 15% for the ad valorem stamp duty is being imposed on second-home buyers. The future development of the residential property market in Hong Kong may be in mist based on the current situation.

Notwithstanding the said challenges, the foundation of the Group's investment properties is strong and the Group's financial condition is sound and stable. Our past performance proves that the Group's broad vision is conducive to carrying out businesses and its successful development. It is also expected that after the Disposal Transaction, the Group will be able to reconsolidate its existing investment portfolio and re-assess the corresponding risk exposure.

Looking ahead, the Group will continue to monitor local and overseas market conditions, endeavour to participate in land auctions and tenders as well as to capture opportunities for acquiring local and overseas premier investment properties with optimistic return in order to strengthen its investment property portfolio. The Group will grasp every good investment chance continuously in future.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long Positions

(i) The Company

Name of Director(s)	Number of Shares Held	Notes	Capacity	Percentage of Issued Share Capital
Mr. Lau, Ming-wai	1,430,700,768	*	Interest in controlled corporation and Other	74.99%
Ms. Chan, Hoi-wan	1,430,700,768	#	Interest in controlled corporation, trustee, interest of children under 18 and Other	74.99%

Notes:

* Mr. Lau, Ming-wai was deemed to be interested in 1,430,700,768 Shares in aggregate. 476,425,000 Shares were directly owned by Century Frontier, which was wholly owned by Mr. Lau, Ming-wai. Mr. Lau, Ming-wai was also deemed to be interested in the 954,275,768 Shares indirectly held by Ms. Chan, Hoi-wan as the trustee for her minor children Lau, Chung-hok and Lau, Sau-wah by virtue of the right of first refusal granted to Century Frontier for those 954,275,768 Shares under a right of first refusal deed.

Ms. Chan, Hoi-wan was deemed to be interested in 1,430,700,768 Shares in aggregate. 954,275,768 Shares were indirectly owned by Sino Omen Holdings Limited, the entire issued share capital of which was held by Ms. Chan, Hoi-wan as trustee for her minor children Lau, Chung-hok and Lau, Sau-wah. Ms. Chan, Hoi-wan was also deemed to be interested in the 476,425,000 Shares indirectly held by Mr. Lau, Ming-wai by virtue of the right of first refusal granted to Sino Omen Holdings Limited, Solar Bright and JLLHIL for those 476,425,000 Shares under a right of first refusal deed.

(ii) Associated corporations of the Company

Name of Director(s)	Name of associated corporations	Number of Share(s) Held	Note	Capacity	Percentage of Issued Share Capital
Ms. Chan, Hoi-wan	Sino Omen Holdings Limited	1,000	*	Trustee and interest of children under 18	100%
Ms. Chan, Hoi-wan	Solar Bright	1	*	Interest in controlled corporation, trustee and interest of children under 18	100%

Note:

- * *Ms. Chan, Hoi-wan (as the trustee for her minor children Lau, Chung-hok and Lau, Sau-wah) directly held the entire issued share capital of Sino Omen Holdings Limited. Sino Omen Holdings Limited directly held the entire issued share capital of Solar Bright and therefore Ms. Chan, Hoi-wan as the trustee for her said minor children was also regarded as interested in the entire issued share capital of Solar Bright .*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Each of Ms. Chan, Sze-wan and Ms. Chan, Hoi-wan is a director of Sino Omen Holdings Limited, Solar Bright and JLLHIL (substantial shareholders of the Company within the meaning of Part XV of the SFO); and Mr. Lau, Ming-wai is a director of Century Frontier (a substantial shareholder of the Company within the meaning of Part XV of the SFO). Save as disclosed above, none of the Directors was a director or an employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL LITIGATION

Save as disclosed below, as at the Latest Practicable Date, so far as known to the Directors, there was no litigation, arbitration or claim of material importance in which the Group is engaged or pending or threatened against the Group.

Chenghai Royal Garden, Shantou, the PRC

In relation to certain property interests located in Chenghai Royal Garden, Shantou, the PRC, the Group, for the purpose of property development, entered into a contract for Pre-registration of Grant of State-owned Land Use Right (the “**Contract**”) with the district bureau of Chenghai dated 5 August 1992, and had made certain down payment. However, the Group subsequently determined not to proceed with the land requisition and requested for refund.

In April 2005, the Group commenced legal proceedings at the Shantou City Intermediate People's Court (the "**Intermediate Court**") to terminate the Contract with the Shantou City Chenghai District State-owned Land Resources Bureau (formerly known as the Shantou City Chenghai District Planning and State-owned Land Resources Bureau) (the "**Chenghai Bureau**"). In view of the uncertainty in the recoverability of the amount claimed and any other entitlements under the Contract, the Group had made a full provision for an impairment loss of HK\$71,118,000 during 2004.

On 28 December 2006, the Intermediate Court made a judgment in favour of the Group. After having gone through a series of appeals to the High People's Court of Guangdong Province (the "**High Court**") and the Supreme People's Court, the case was remitted to the Intermediate Court for rehearing. On 5 December 2012, the Intermediate Court delivered a judgment in favour of the Group and upheld the majority claims of the Group. The Chenghai Bureau submitted an application for appeal to the High Court on 26 December 2012 against the said judgment. On 4 January 2013, the Group also submitted an application for appeal to the High Court in respect of those remaining minority claims of the Group that were not upheld by the Intermediate Court.

On 8 May 2013, the High Court held a case hearing. On 3 December 2013, the High Court delivered the judgment which upheld the ruling of the Intermediate Court and dismissed the appeals of both parties. On 31 March 2014, the Group submitted an application for the enforcement of the judgment to the Intermediate Court and the application was accepted by the Intermediate Court on 1 April 2014. The Group received RMB3,000,000 as partial satisfaction of the enforcement on 9 February 2015. On 13 February 2015, the Intermediate Court issued a court order to freeze the Chenghai Bureau's bank deposit of RMB10,000,000. The Group received a further sum of RMB3,000,000 on 29 December 2015 and RMB3,000,000 on 25 August 2016 respectively as partial satisfaction of the enforcement. As at the Latest Practicable Date, the enforcement of the judgment was still in progress.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered or proposed to enter into any service contract with any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

5. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and/or members of the Group and are or may be material:-

- (a) the equity and debt transfer agreement dated 14 July 2015 entered into between Evergo Holdings (China) Company Limited ("**Evergo Holdings**") (an indirect wholly-owned subsidiary of the Company) and Shengyu (BVI) Limited ("**Shengyu (BVI)**") (an independent third party to the Company) relating to the sale of the equity in Lucky Benefit Limited and Rising Sheen Limited and all interests in the debts receivable at a consideration of HK\$6,500,000,000 as disclosed in the announcement of the Company dated 14 July 2015;

- (b) the equity and debt receivable transfer agreement dated 19 October 2015 entered into between Evergo Holdings and Shengyu (BVI) relating to the sale of the entire issued share capital of Million Castle Investments Limited together with all the interests in the shareholder's loan owing by Million Castle Investments Limited to Evergo Holdings at an aggregate consideration of HK\$1,750,000,000 as disclosed in the announcement of the Company dated 19 October 2015;
- (c) the equity and debt transfer agreement dated 12 November 2015 entered into between Great System Investment Limited (an indirect wholly-owned subsidiary of the Company) and Shengyu (BVI) relating to the sale of the entire issued share capital of and all the interests in the debts receivable from Pioneer Time Investment Limited as disclosed in the announcement of the Company dated 12 November 2015. Completion of such agreement took place on 15 January 2016 and the final consideration was HK\$12,448,280,007.05 as disclosed in the announcement of the Company dated 15 January 2016;
- (d) the sale and purchase agreement dated 23 December 2015 entered into among Good Top Limited (an indirect wholly-owned subsidiary of the Company), the Company, Best Range Limited (a company wholly and beneficially owned by Mr. Joseph Lau, Luen-hung) and Mr. Joseph Lau, Luen-hung relating to the sale of the entire issued share capital of Jumbo Grace Limited as disclosed in the announcement of the Company dated 23 December 2015. Completion of such agreement took place on 1 September 2016 as disclosed in the announcement of the Company dated 1 September 2016 and the final consideration was HK\$10,763,132,848.59 as disclosed in the announcement of the Company dated 5 October 2016;
- (e) the sale and purchase agreement dated 23 December 2015 entered into among the Vendor, the Company, Magic Square Limited (a company wholly and beneficially owned by Mr. Joseph Lau, Luen-hung) and Mr. Joseph Lau, Luen-hung relating to the sale of the entire issued share capital of Keep Speed Company Limited as disclosed in the announcement of the Company dated 23 December 2015. Completion of such agreement took place on 1 September 2016 as disclosed in the announcement of the Company dated 1 September 2016 and the final consideration was HK\$2.00 and a negative consideration of HK\$4,575,700,680.46 as disclosed in the announcement of the Company dated 5 October 2016;
- (f) the sale and purchase agreement dated 21 March 2016 entered into between Express Right Limited (an indirect wholly-owned subsidiary of the Company) and British Airways Pension Trustees Limited (an independent third party to the Company) relating to the purchase of the freehold property on London, the United Kingdom as disclosed in the announcement of the Company dated 21 March 2016 at the consideration of GBP182,800,000, equivalent to approximately HK\$2,048,201,000 (based on the exchange rate of GBP1 to HK\$11.2046) before rent top up and allowance for stamp duty land tax of the United Kingdom. Completion of such agreement took place on 20 May 2016;

- (g) the sale and purchase agreement dated 5 December 2016 entered into among Paul Y. Holdings Company Limited (a direct wholly-owned subsidiary of the Company), the Company, Creative Dragon Ventures Limited (a company wholly and beneficially owned by Ms. Chan, Hoi-wan) and Ms. Chan, Hoi-wan relating to the sale of the entire issued share capital of Win Kings Holding Ltd. that ultimately held the property development situated at No.12 Shiu Fai Terrace, Mid-Levels East, Hong Kong as disclosed in the announcement of the Company dated 5 December 2016. Completion of such agreement took place on 10 February 2017 and the final consideration was HK\$889,554,411.69 as disclosed in the announcement of the Company dated 10 February 2017; Ms. Chan, Hoi-wan was appointed as an executive Director on 13 February 2017;
- (h) the sale and purchase agreement dated 5 December 2016 entered into among New Silver Limited (an indirect wholly-owned subsidiary of the Company), the Company, Strong Point Ventures Limited (a company wholly and beneficially owned by Mr. Lau, Ming-wai (a non-executive Director)) and Mr. Lau, Ming-wai relating to the sale of the entire issued share capital of Pinecrest International Limited that ultimately held 79 shops of Lowu Commercial Plaza located in Shenzhen, the PRC as disclosed in the announcement of the Company dated 5 December 2016. Completion of such agreement took place on 10 February 2017 and the final consideration was HK\$352,220,907.87 as disclosed in the announcement of the Company dated 10 February 2017; and
- (i) the Disposal Agreement.

6. INTEREST IN ASSETS OR CONTRACTS

- (a) Save for the agreements disclosed in (g), (h) and (i) under the paragraph headed “Material Contracts” in this appendix, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 December 2016, being the date to which the latest final results announcement of the Company for the year ended 31 December 2016 were made up, been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which contract or arrangement was subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. DIRECTOR’S INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, Mr. Lau, Ming-wai, Ms. Chan, Hoi-wan and Ms. Chan, Sze-wan had personal/directorship interests in private companies engaged in property investment businesses and securities investment businesses. As such, they were regarded as being interested in such businesses which competed or might compete with the Group. However, when compared with the dominance and size of operations of the Group, such competing businesses were considered immaterial.

8. MISCELLANEOUS

- (a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is at 26th Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong.
- (b) The Company's Branch Registrar and Transfer Office in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Lam, Kwong-wai, who is a Certified Public Accountant (Practising).
- (d) The English text of this circular and the form of proxy shall prevail over the Chinese text in the case of inconsistency.

9. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its opinions or advice which are contained in this circular:-

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the above mentioned expert:-

- (a) did not have any shareholding, directly or indirectly, in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published final results announcement of the Company for the year ended 31 December 2016 were made up; and
- (c) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name, letter and/or report in the form and context in which they respectively appear.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company in Hong Kong at 26th Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong during normal business hours on any weekdays (except public holidays) from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2014 and 2015 and final results announcement of the Company for the year ended 31 December 2016;
- (c) the material contracts as referred to in the paragraph headed “Material Contracts” in this appendix;
- (d) the letter from the Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (e) the letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Gram Capital” in this circular;
- (f) the written consent of Gram Capital as referred to in the paragraph headed “Qualification and Consent of Expert” in this appendix; and
- (g) this circular.

NOTICE OF THE SGM



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Chinese Estates Holdings Limited (the “**Company**”) will be held at Falcon Room, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 4 May 2017 at 10:00 a.m. for the purpose of considering and, if thought fit, with or without amendments, passing the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

the terms and conditions, and the entering into, of the sale and purchase agreement dated 15 March 2017 entered into among China Entertainment and Land Investment Company, Limited, Perfect Sign Investments Limited, the Company and Ms. Chan, Hoi-wan relating to, among others, the sale and purchase of the entire issued share capital of Great Captain Limited (the “**Disposal Agreement**”) (a copy of the Disposal Agreement has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) and all the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified (as the case may be); and that any one director or (if affixing of seal is required) any two directors of the Company be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver (including under seal where applicable) and to authorise the signing, executing, perfecting, delivering (including under seal where applicable) of all such documents and deeds, and to do or authorise doing all such acts, matters and things, as he/she may in his/her absolute discretion consider necessary, expedient or desirable to give effect to, implement and/or complete all matters in connection with the transactions contemplated under the Disposal Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Disposal Agreement, as he/she may in his/her absolute discretion consider to be desirable and in the interest of the Company and all of such acts of director(s) as aforesaid be hereby approved, ratified and confirmed.”

By order of the Board

Lam, Kwong-wai

Executive Director and Company Secretary

Hong Kong, 13 April 2017

NOTICE OF THE SGM

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal office in Hong Kong:

26th Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

Notes:

1. Any shareholder of the Company (the "**Shareholder(s)**") entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and to vote instead of him. A proxy need not be a Shareholder.
2. To be valid, the form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting (or at any adjournment thereof).
3. Delivery of an instrument appointing a proxy should not preclude a Shareholder from attending and voting in person at the Meeting or at any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of share(s), any one of such joint holders may vote, either in person or by proxy, in respect of such share(s) as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The resolution as set out in this notice will be taken by poll at the Meeting.
6. As at the date hereof, the board of directors of the Company comprised Ms. Chan, Sze-wan, Ms. Chan, Hoi-wan, Ms. Chan, Lok-wan and Mr. Lam, Kwong-wai as Executive Directors, Mr. Lau, Ming-wai and Ms. Amy Lau, Yuk-wai as Non-executive Directors, and Mr. Chan, Kwok-wai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun as Independent Non-executive Directors.