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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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.

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

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## CHINESE ESTATES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 127)

### MAJOR AND CONNECTED TRANSACTIONS DISPOSAL OF SUBSIDIARIES AND NOTICE OF SPECIAL GENERAL MEETING

**Financial adviser to the Company**



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



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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 10 to 31 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-18 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 Friday, 13 January 2017 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 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.

28 December 2016

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## TABLE OF CONTENTS

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	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b>	
A. INTRODUCTION .....	10
B. THE DISPOSAL AGREEMENTS .....	11
C. EFFECT OF THE DISPOSAL TRANSACTIONS .....	20
D. INFORMATION OF THE GROUP AND THE VENDORS .....	23
E. INFORMATION OF THE PURCHASERS .....	23
F. INFORMATION OF THE ASSETS TO BE DISPOSED OF .....	24
G. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTIONS .....	26
H. USE OF PROCEEDS .....	27
I. LISTING RULES IMPLICATION FOR THE DISPOSAL TRANSACTIONS .....	28
J. THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE .....	29
K. SGM .....	29
L. RECOMMENDATION .....	31
M. GENERAL .....	31
N. ADDITIONAL INFORMATION .....	31
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	IBC-1
<b>LETTER FROM GRAM CAPITAL</b> .....	IFA-1
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP</b> .....	I-1
<b>APPENDIX II – PROPERTY VALUATION REPORT ON THE PROPERTIES</b> .....	II-1
<b>APPENDIX III – GENERAL INFORMATION</b> .....	III-1
<b>NOTICE OF SGM</b> .....	SGM-1

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 5 December 2016 in respect of the Disposal Agreements and the Disposal Transactions;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“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;
“close associate(s)”	has the meaning ascribed to it in the Listing Rules;
“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;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“controlling shareholders(s)”	has the meaning ascribed to it in the Listing Rules;
“core connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Creative Dragon Ventures”	Creative Dragon Ventures Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Ms. Chan, Hoi-wan;
“Director(s)”	director(s) of the Company;
“Disposal Agreements”	comprising the Win Kings Disposal Agreement and the Pinecrest Disposal Agreement, and “Disposal Agreement” means each or any of them;
“Disposal Transactions”	comprising the Win Kings Disposal Transaction and the Pinecrest Disposal Transaction, and “Disposal Transaction” means each or any of them;
“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);

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## DEFINITIONS

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“Estimated Outstanding Development Costs”	the estimated aggregate outstanding development costs as estimated by Paul Y. as of the Win Kings Completion Date which have to be further incurred by the Win Kings Group after the Win Kings Completion Date in order to complete the development of the Hong Kong Property;
“GBP”	Pound Sterling, the lawful currency of the United Kingdom;
“Global King”	Global King (PTC) Ltd., a company incorporated in the BVI with limited liability and a Shareholder and a close associate of each of Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai;
“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 Agreements and the Disposal Transactions;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRSs”	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;
“Hong Kong Property”	the property as set out in the paragraph headed “Information of the Hong Kong Property” under the section headed “Information of the Assets to be Disposed of – The Win Kings Disposal Agreement” in the “Letter from the Board” in this circular;
“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 Agreements and the Disposal Transactions;
“Independent Property Valuer”	B.I. Appraisals Limited;

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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than (a) Shareholders who have a material interest in the Disposal Transactions (including each of Ms. Chan, Hoi-wan, Mr. Lau, Ming-wai and their respective associate(s) (if they hold any Shares) in respect of the relevant Disposal Transaction to which he/she is a party (as the case may be)) and (b) Shareholders who are Related Parties pursuant to the Stock Exchange Undertaking;
“JLLHIL”	Joseph Lau Luen Hung Investments Limited, a company incorporated in the BVI with limited liability and a Shareholder and a close associate of each of Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai;
“Latest Practicable Date”	21 December 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time;
“Mr. J. Lau”	Mr. Joseph Lau, Luen-hung, a substantial shareholder and controlling shareholder of the Company;
“New Silver”	New Silver Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company;
“Paul Y.”	Paul Y. Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability and a direct wholly-owned subsidiary of the Company;
“Pinecrest”	Pinecrest International Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company;
“Pinecrest Assumed Debt”	all sums due and owing to any member of the Pinecrest Group by any member of the Group (other than the Pinecrest Group) as at the Pinecrest Completion Date;
“Pinecrest Completion Accounts”	the unaudited consolidated statement of comprehensive income of the Pinecrest Group for the period from 1 January 2017 and ending on the Pinecrest Completion Date and the unaudited consolidated statement of financial position of the Pinecrest Group as at the Pinecrest Completion Date, each prepared in accordance with HKFRSs;

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## DEFINITIONS

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“Pinecrest Completion Date”	any Business Day falling between 1 January 2017 and 31 December 2017 (both days inclusive) as shall be agreed between New Silver and Strong Point Ventures for the purpose of completion of the Pinecrest Disposal Agreement, or failing agreement, 31 December 2017;
“Pinecrest Condition Precedent”	the condition precedent to the completion of the Pinecrest Disposal Agreement as set out in the paragraph headed “Condition Precedent” under the section headed “The Disposal Agreements – The Pinecrest Disposal Agreement” in the “Letter from the Board” in this circular;
“Pinecrest Consideration”	the aggregate consideration for the sale and purchase of the Pinecrest Sale Share and the Pinecrest Sale Loan pursuant to the Pinecrest Disposal Agreement;
“Pinecrest Deposits”	the aggregate amounts equivalent to (i) the Pinecrest Special Dividend receivable by Global King and JLLHIL, or their respective nominee(s) or custodian(s), as Shareholders (in the case of Global King, excluding the Pinecrest Excluded Special Dividend); and (ii) any additional deposits of any amount on top of the aforesaid Pinecrest Special Dividend which Strong Point Ventures shall be entitled to pay to New Silver prior to completion of the Pinecrest Disposal Agreement pursuant to the Pinecrest Disposal Agreement;
“Pinecrest Disposal Agreement”	the sale and purchase agreement dated 5 December 2016 entered into among New Silver, the Company, Strong Point Ventures and Mr. Lau, Ming-wai relating to the Pinecrest Sale Share and the Pinecrest Sale Loan;
“Pinecrest Disposal Transaction”	the transactions contemplated under the Pinecrest Disposal Agreement;
“Pinecrest Dividend Entitlements”	the entitlements to the Pinecrest Special Dividend of certain Shareholders who have executed and delivered to New Silver and the Company the Pinecrest Letter of Payment Direction;
“Pinecrest Excluded Special Dividend”	the Pinecrest Special Dividend receivable by Global King as holder of those Shares which are held or deposited in the Central Clearing and Settlement System or held by HKSCC Nominees Limited on behalf of or on account of Global King;
“Pinecrest Group”	Pinecrest and its subsidiaries;

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## DEFINITIONS

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“Pinecrest Letter of Payment Direction”	a letter of payment direction regarding the Pinecrest Dividend Entitlements by certain Shareholders;
“Pinecrest Long Stop Date”	30 June 2017 or such other date as may be agreed between New Silver and Strong Point Ventures;
“Pinecrest Provisional Consideration”	a sum of HK\$399,785,690 as the provisional consideration payable by Strong Point Ventures to New Silver upon completion of the Pinecrest Disposal Agreement;
“Pinecrest Sale Loan”	all sums due, owing or payable by the Pinecrest Group to other members of the Group (other than the Pinecrest Group) as at the Pinecrest Completion Date;
“Pinecrest Sale Share”	the one share of Pinecrest beneficially owned by and registered in the name of New Silver, representing the entire issued share capital of Pinecrest;
“Pinecrest 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 Pinecrest Disposal Agreement 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 Pinecrest Completion Date;
“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;
“PRC Properties”	the properties as set out in the paragraph headed “Information of the PRC Properties” under the section headed “Information of the Assets to be Disposed of – The Pinecrest Disposal Agreement” in the “Letter from the Board” in this circular;
“Properties”	collectively, the Hong Kong Property and the PRC Properties;
“Related Party(ies)”	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;

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## DEFINITIONS

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“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 13 January 2017 for the purpose of the Independent Shareholders considering, and if thought fit, approving the Disposal Agreements and the Disposal Transactions;
“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);
“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"><li>(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;</li><li>(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</li><li>(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;</li></ul> <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>
“Stable Castle”	Stable Castle Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of Win Kings;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;



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## DEFINITIONS

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“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);
“Strong Point Ventures”	Strong Point Ventures Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Lau, Ming-wai;
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules;
“Win Kings”	Win Kings Holding Ltd., a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company;
“Win Kings Assumed Debt”	all sums due and owing to any member of the Win Kings Group by any member of the Group (other than the Win Kings Group) as at the Win Kings Completion Date;
“Win Kings Bank Loan”	the outstanding bank loan, interest and all other sums owed by Stable Castle pursuant to the facility letter dated 16 November 2012 in relation to the grant of a term loan facility of HK\$110 million by Chong Hing Bank Limited to Stable Castle (as amended, varied or supplemented) or if such bank loan is repaid but its repayment is refinanced by a new bank loan obtained by Stable Castle or Win Kings prior to or upon completion of the Win Kings Disposal Agreement, the outstanding bank loan, interest and all other sums owed by Stable Castle or Win Kings pursuant to such new bank loan;
“Win Kings Bank Loan Documents”	the loan and security documents executed in respect of the Win Kings Bank Loan;
“Win Kings CE Guarantee”	any guarantee, surety, security or indemnity given by any member of the Group (other than the Win Kings Group) in respect of the obligations or liabilities of any member of the Win Kings Group;
“Win Kings Completion Accounts”	the unaudited consolidated statement of comprehensive income of the Win Kings Group for the period from 1 January 2017 and ending on the Win Kings Completion Date and the unaudited consolidated statement of financial position of the Win Kings Group as at the Win Kings Completion Date, each prepared in accordance with HKFRSs;

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## DEFINITIONS

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“Win Kings Completion Date”	any Business Day falling between 1 January 2017 and 31 December 2017 (both days inclusive) as shall be agreed between Paul Y. and Creative Dragon Ventures for the purpose of completion of the Win Kings Disposal Agreement, or failing agreement, 31 December 2017;
“Win Kings Condition Precedent”	the condition precedent to the completion of the Win Kings Disposal Agreement as set out in the paragraph headed “Condition Precedent” under the section headed “The Disposal Agreements – The Win Kings Disposal Agreement” in the “Letter from the Board” in this circular;
“Win Kings Consideration”	the aggregate consideration for the sale and purchase of the Win Kings Sale Share and the Win Kings Sale Loan pursuant to the Win Kings Disposal Agreement;
“Win Kings Deposits”	the aggregate amounts equivalent to (i) the Win Kings Special Dividend receivable by Global King and JLLHIL, or their respective nominee(s) or custodian(s), as Shareholders (in the case of Global King, excluding the Win Kings Excluded Special Dividend); and (ii) any additional deposits of any amount on top of the aforesaid Win Kings Special Dividend which Creative Dragon Ventures shall be entitled to pay to Paul Y. prior to completion of the Win Kings Disposal Agreement pursuant to the Win Kings Disposal Agreement;
“Win Kings Disposal Agreement”	the sale and purchase agreement dated 5 December 2016 entered into among Paul Y., the Company, Creative Dragon Ventures and Ms. Chan, Hoi-wan relating to the Win Kings Sale Share and the Win Kings Sale Loan;
“Win Kings Disposal Transaction”	the transactions contemplated under the Win Kings Disposal Agreement;
“Win Kings Dividend Entitlements”	the entitlements to the Win Kings Special Dividend of certain Shareholders who have executed and delivered to Paul Y. and the Company the Win Kings Letter of Payment Direction;
“Win Kings Excluded Special Dividend”	the Win Kings Special Dividend receivable by Global King as holder of those Shares which are held or deposited in the Central Clearing and Settlement System or held by HKSCC Nominees Limited on behalf of or on account of Global King;
“Win Kings Group”	Win Kings and its subsidiary;

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## DEFINITIONS

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“Win Kings Letter of Payment Direction”	a letter of payment direction regarding the Win Kings Dividend Entitlements by certain Shareholders;
“Win Kings Long Stop Date”	30 June 2017 or such other date as may be agreed between Paul Y. and Creative Dragon Ventures;
“Win Kings Provisional Consideration”	a sum of HK\$776,768,166 as the provisional consideration payable by Creative Dragon Ventures to Paul Y. upon completion of the Win Kings Disposal Agreement;
“Win Kings Sale Loan”	all sums due, owing or payable by the Win Kings Group to other members of the Group (other than the Win Kings Group) as at the Win Kings Completion Date;
“Win Kings Sale Share”	the one share of Win Kings beneficially owned by and registered in the name of Paul Y., representing the entire issued share capital of Win Kings;
“Win Kings 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 Win Kings Disposal Agreement 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 Win Kings Completion Date;
“Windsor Agreements”	collectively, (i) the sale and purchase agreement dated 23 December 2015 entered into among Good Top Limited, the Company, Best Range Limited and Mr. J. Lau relating to, among others, disposal of the entire issued share capital of Jumbo Grace Limited; and (ii) the sale and purchase agreement dated 23 December 2015 entered into among China Entertainment and Land Investment Company, Limited, the Company, Magic Square Limited and Mr. J. Lau relating to, among others, disposal of the entire issued share capital of Keep Speed Company Limited;
“Windsor Transactions”	the transactions contemplated under the Windsor Agreements; and
“%”	per cent.

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## LETTER FROM THE BOARD

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## CHINESE ESTATES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 127)**

*Executive Directors:*

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

*Non-executive Directors:*

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

*Independent Non-executive Directors:*

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

*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

28 December 2016

*To the Shareholders*

Dear Sir or Madam,

### **MAJOR AND CONNECTED TRANSACTIONS DISPOSAL OF SUBSIDIARIES**

#### **A. INTRODUCTION**

Reference is made to the Announcement. On 5 December 2016, (i) Paul Y. as vendor, the Company as vendor guarantor, Creative Dragon Ventures as purchaser and Ms. Chan, Hoi-wan as purchaser guarantor entered into the Win Kings Disposal Agreement relating to, among others, the sale and purchase of the Win Kings Sale Share and the Win Kings Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Win Kings Bank Loan Document(s)); and (ii) New Silver as vendor, the Company as vendor guarantor, Strong Point Ventures as purchaser and Mr. Lau, Ming-wai as purchaser guarantor entered into the Pinecrest Disposal Agreement relating to, among others, the sale and purchase of the Pinecrest Sale Share and the Pinecrest Sale Loan free from all Encumbrances.

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## LETTER FROM THE BOARD

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As the Disposal Agreements were entered into within 12 months after the completion of the Windsor Agreements, and all such agreements were entered into by the Company with parties connected with each other, the Disposal Transactions and the Windsor 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 Transactions (when aggregated with the Windsor Transactions) exceed 25% but are less than 75%, the Disposal Transactions constitute major transactions for the Company and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Ms. Chan, Hoi-wan, being an associate of three Directors (namely Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Mr. Lau, Ming-wai) and an associate of a substantial shareholder and controlling shareholder of the Company (namely Mr. J. Lau), is the sole director and the sole beneficial owner of Creative Dragon Ventures, Ms. Chan, Hoi-wan and Creative Dragon Ventures are connected persons of the Company. In addition, as Mr. Lau, Ming-wai, being a Director, is the sole director and the sole beneficial owner of Strong Point Ventures, Mr. Lau, Ming-wai and Strong Point Ventures are connected persons of the Company. Accordingly, the Disposal Transactions also constitute connected transactions for the Company under Chapter 14A of the Listing Rules and are 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 Agreements and the Disposal Transactions; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Disposal Agreements and the Disposal Transactions; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreements and the Disposal Transactions; (iv) the property valuation report on the Properties; and (v) other information as required under the Listing Rules together with the notice of SGM.

### **B. THE DISPOSAL AGREEMENTS**

#### **(1) The Win Kings Disposal Agreement**

***Date***

5 December 2016

***Parties***

- (a) Paul Y., as vendor;
- (b) the Company, as vendor guarantor;
- (c) Creative Dragon Ventures, as purchaser; and
- (d) Ms. Chan, Hoi-wan, as purchaser guarantor.

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## LETTER FROM THE BOARD

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In consideration of Creative Dragon Ventures and Ms. Chan, Hoi-wan entering into the Win Kings Disposal Agreement, the Company has agreed to guarantee the performance by Paul Y. of its obligations under the Win Kings Disposal Agreement. In consideration of Paul Y. and the Company entering into the Win Kings Disposal Agreement, Ms. Chan, Hoi-wan has agreed to guarantee the performance by Creative Dragon Ventures of its obligations under the Win Kings Disposal Agreement.

### *Assets to be disposed of*

The Win Kings Sale Share and the Win Kings Sale Loan. As at 15 November 2016, the amount of the Win Kings Sale Loan was approximately HK\$512.2 million.

In consideration for the sale or procurement of the sale of the Win Kings Sale Share and the assignment or procurement of the assignment of the Win Kings Sale Loan by Paul Y. to Creative Dragon Ventures or its nominee(s), Creative Dragon Ventures further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Win Kings Assumed Debt (if any) upon completion of the Win Kings Disposal Agreement. As at 15 November 2016, the amount of the Win Kings Assumed Debt was nil.

The Win Kings Sale Share to be acquired by Creative Dragon Ventures shall be free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Win Kings Bank Loan Document(s)) and with all dividends, benefits and other rights becoming attached or accruing thereto as from the Win Kings Completion Date.

### *The Win Kings Consideration*

The Win Kings Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$1,050 million):–

- (a) the consolidated net asset value or liability of the Win Kings Group as shown in the Win Kings Completion Accounts (for the purpose of ascertaining such consolidated net asset value or liability, Creative Dragon Ventures acknowledged and accepted that the Hong Kong Property and the development of the Hong Kong Property altogether shall have a combined value (the “**Hong Kong Property Agreed Value**”) of HK\$910 million in the Win Kings Completion Accounts and that no works in progress in respect of the development of the Hong Kong Property shall be recognised as any assets in the Win Kings Completion Accounts as the Hong Kong Property Agreed Value of HK\$910 million was agreed on the basis that the development of the Hong Kong Property had been completed); and
- (b) the aggregate face amount of the Win Kings Sale Loan, less the aggregate face amount of the Win Kings Assumed Debt and the Estimated Outstanding Development Costs.

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## LETTER FROM THE BOARD

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The Hong Kong Property Agreed Value of HK\$910 million was determined based on the gross development value of the Hong Kong Property of HK\$905 million as at 15 November 2016 as evaluated by the Independent Property Valuer using the direct comparison method. Full text of the relevant property valuation report is included in Appendix II to this circular.

Based on the unaudited consolidated accounts of the Win Kings Group, as at 15 November 2016, (i) the unaudited consolidated net asset value of the Win Kings Group would be approximately HK\$287.0 million (having adjusted for the Hong Kong Property Agreed Value of HK\$910 million); (ii) the aggregate face amount of the Win Kings Sale Loan was approximately HK\$512.2 million; (iii) the aggregate face amount of the Win Kings Assumed Debt was nil; and (iv) the Estimated Outstanding Development Costs were approximately HK\$22.4 million. Accordingly, adopting the pricing formula of the Win Kings Consideration and based on the aforesaid historical financial information, the Win Kings Consideration is expected to be approximately HK\$776.8 million.

The parties to the Win Kings Disposal Agreement agreed to cap the Win Kings Consideration at HK\$1,050 million as a result of negotiation to ensure commercial certainty. As the determination of the cap of the Win Kings Consideration is based on the projected consolidated net asset value of the Win Kings Group in the Win Kings Completion Accounts and the Hong Kong Property Agreed Value of HK\$910 million together with a reasonable buffer, it would be a fairly close estimation of the final amount of the Win Kings Consideration; thus, serving as a reasonable reference to the scale of the Win Kings Disposal Transaction. The Board is of the view that the cap of the Win Kings Consideration is fair and reasonable.

Moreover, the Board is of the view that the Win Kings Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole given that it was determined with reference to the consolidated net asset value or liability of the Win Kings Group as shown in the Win Kings Completion Accounts, having taken into account the Hong Kong Property Agreed Value of HK\$910 million (which represents a premium of approximately 0.55% over the gross development value of the Hong Kong Property of HK\$905 million as at 15 November 2016 which was evaluated by the Independent Property Valuer). In addition, the face value of the Win Kings Sale Loan, the Win Kings Assumed Debt and the Estimated Outstanding Development Costs are accounted for on a dollar-to-dollar basis.

At completion of the Win Kings Disposal Agreement, Creative Dragon Ventures shall pay to Paul Y. the Win Kings Provisional Consideration. The difference between the Win Kings Consideration and the Win Kings Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Win Kings Completion Accounts have been delivered to Creative Dragon Ventures.

The Company will publish further announcement(s) once the actual amount of the Win Kings Consideration is confirmed.

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## LETTER FROM THE BOARD

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### *Deposits*

Pursuant to the Win Kings Disposal Agreement, Creative Dragon Ventures shall pay to Paul Y. the Win Kings Deposits, which will be applied towards settlement of the Win Kings Provisional Consideration at completion of the Win Kings Disposal Agreement. Ms. Chan, Hoi-wan has agreed to procure Global King and JLLHIL to undertake to the Company and Paul Y. that they shall (as agents and on behalf of Creative Dragon Ventures) pay or procure to pay to the Company (as agent of Paul Y.) the aggregate amount of such Win Kings Special Dividend payable to them or their respective nominee(s) or custodian(s) by the Company (in the case of Global King, excluding the Win Kings Excluded Special Dividend) as payment of the Win Kings Deposits (or any part thereof).

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

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

Creative Dragon Ventures may elect to settle the Win Kings Provisional Consideration (or any part thereof) by procuring certain Shareholders to apply their Win Kings Dividend Entitlements, subject to completion of the Win Kings Disposal Agreement, towards the payment of the Win Kings Provisional Consideration and the Company will be authorised and instructed to pay such Win Kings Dividend Entitlements to Paul Y., in lieu of such Shareholders, to settle the Win Kings Provisional Consideration to the extent of the aggregate amount of such Win Kings Dividend Entitlements.



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## LETTER FROM THE BOARD

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### ***Undertakings and Indemnity***

Prior to completion of the Win Kings Disposal Agreement, each of Creative Dragon Ventures 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 Win Kings CE Guarantee following or upon completion of the Win Kings Disposal Agreement to replace the Win Kings CE Guarantee.

### ***Financing***

Paul Y. has agreed that, if Creative Dragon Ventures needs to raise loans or other borrowings from banks or third parties for its payment of the Win Kings Provisional Consideration or the Win Kings Consideration or any part thereof, on the basis of the Win Kings Group providing guarantees or securities to such banks or third parties, and if so requested by Creative Dragon Ventures and subject to compliance with all applicable laws and regulations, Paul Y. will procure the Win Kings Group to give reasonable assistance to Creative Dragon Ventures prior to or at completion of the Win Kings Disposal Agreement to facilitate the provision of such securities by the Win Kings Group and the obtaining of such financing by Creative Dragon Ventures upon completion of the Win Kings Disposal Agreement.

Given the above guarantee(s) or security(ies) if provided by the Win Kings Group will only be provided if completion of the Win Kings Disposal Agreement occurs, and that upon completion thereof, the Win Kings Group will cease to be subsidiaries of the Company but become wholly-owned subsidiaries of Creative Dragon Ventures, such financial assistance will therefore be provided by the subsidiary(ies) of Creative Dragon Ventures. Hence, the assistance if provided by Paul Y. under the Win Kings Disposal Agreement will be administrative assistance in facilitating Creative Dragon Ventures to obtain financing to complete the Win Kings Disposal Agreement. Such administrative assistance is not unusual in sale and purchase transactions of this kind.

### ***Condition Precedent***

Completion of the Win Kings Disposal Agreement is conditional upon the obtaining of the approval by the Independent Shareholders at the SGM in respect of the Win Kings Disposal Agreement and the Win Kings Disposal Transaction. As at the Latest Practicable Date, the Win Kings Condition Precedent had not yet been fulfilled.

If the Win Kings Condition Precedent shall not have been fulfilled on or before the Win Kings Long Stop Date, the Win Kings 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 Win Kings Disposal Agreement).

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## LETTER FROM THE BOARD

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### ***Completion***

Subject to the Win Kings Condition Precedent having been satisfied, completion of the Win Kings Disposal Agreement shall take place on the Win Kings Completion Date. The parties to the Win Kings Disposal Agreement undertake with each other parties thereto to use their respective reasonable endeavours and in good faith to proceed with completion of the Win Kings Disposal Agreement as soon as practicable after the fulfilment of the Win Kings Condition Precedent.

### **(2) The Pinecrest Disposal Agreement**

#### ***Date***

5 December 2016

#### ***Parties***

- (a) New Silver, as vendor;
- (b) the Company, as vendor guarantor;
- (c) Strong Point Ventures, as purchaser; and
- (d) Mr. Lau, Ming-wai, as purchaser guarantor.

In consideration of Strong Point Ventures and Mr. Lau, Ming-wai entering into the Pinecrest Disposal Agreement, the Company has agreed to guarantee the performance by New Silver of its obligations under the Pinecrest Disposal Agreement. In consideration of New Silver and the Company entering into the Pinecrest Disposal Agreement, Mr. Lau, Ming-wai has agreed to guarantee the performance by Strong Point Ventures of its obligations under the Pinecrest Disposal Agreement.

#### ***Assets to be disposed of***

The Pinecrest Sale Share and the Pinecrest Sale Loan. As at 30 September 2016, the amount of the Pinecrest Sale Loan was nil.

In consideration for the sale or procurement of the sale of the Pinecrest Sale Share and the assignment or procurement of the assignment of the Pinecrest Sale Loan by New Silver to Strong Point Ventures or its nominee(s), Strong Point Ventures further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Pinecrest Assumed Debt (if any) upon completion of the Pinecrest Disposal Agreement. As at 30 September 2016, the amount of the Pinecrest Assumed Debt was approximately HK\$237.4 million.

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## LETTER FROM THE BOARD

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The Pinecrest Sale Share to be acquired by Strong Point Ventures shall be free from all Encumbrances and with all dividends, benefits and other rights becoming attached or accruing thereto as from the Pinecrest Completion Date.

### *The Pinecrest Consideration*

The Pinecrest Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$500 million):–

- (a) the consolidated net asset value or liability of the Pinecrest Group as shown in the Pinecrest Completion Accounts (for the purpose of ascertaining such consolidated net asset value or liability, Strong Point Ventures acknowledged and accepted that the PRC Properties shall have a value (the “**PRC Properties Agreed Value**”) of HK\$360 million in the Pinecrest Completion Accounts); and
- (b) the aggregate face amount of the Pinecrest Sale Loan, less the aggregate face amount of the Pinecrest Assumed Debt.

The PRC Properties Agreed Value of HK\$360 million was determined based on the market value of the PRC Properties of approximately HK\$352.9 million as at 15 November 2016 as evaluated by the Independent Property Valuer using the investment method. Full text of the relevant property valuation report is included in Appendix II to this circular.

Based on the unaudited consolidated accounts of the Pinecrest Group, as at 30 September 2016, (i) the unaudited consolidated net asset value of the Pinecrest Group (excluding the carrying amounts of the deferred tax assets and liabilities attributable to the PRC Properties) would be approximately HK\$637.2 million (having adjusted for the PRC Properties Agreed Value of HK\$360 million); (ii) the aggregate face amount of the Pinecrest Sale Loan was nil; and (iii) the aggregate face amount of the Pinecrest Assumed Debt was approximately HK\$237.4 million. Accordingly, adopting the pricing formula of the Pinecrest Consideration and based on the aforesaid historical financial information, the Pinecrest Consideration is expected to be approximately HK\$399.8 million.

The parties to the Pinecrest Disposal Agreement agreed to cap the Pinecrest Consideration at HK\$500 million as a result of negotiation to ensure commercial certainty. As the determination of the cap of the Pinecrest Consideration is based on the projected consolidated net asset value of the Pinecrest Group (excluding the carrying amounts of the deferred tax assets and liabilities attributable to the PRC Properties) in the Pinecrest Completion Accounts and the PRC Properties Agreed Value of HK\$360 million together with a reasonable buffer, it would be a fairly close estimation of the final amount of the Pinecrest Consideration; thus, serving as a reasonable reference to the scale of the Pinecrest Disposal Transaction. The Board is of the view that the cap of the Pinecrest Consideration is fair and reasonable.

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## LETTER FROM THE BOARD

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Moreover, the Board is of the view that the Pinecrest Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole given that it was determined with reference to the consolidated net asset value or liability of the Pinecrest Group (excluding the carrying amounts of the deferred tax assets and liabilities attributable to the PRC Properties) as shown in the Pinecrest Completion Accounts, having taken into account the PRC Properties Agreed Value of HK\$360 million (which represents a premium of approximately 2.01% over the market value of the PRC Properties of approximately HK\$352.9 million as at 15 November 2016 which was evaluated by the Independent Property Valuer). In addition, the face value of the Pinecrest Sale Loan and the Pinecrest Assumed Debt are accounted for on a dollar-to-dollar basis.

At completion of the Pinecrest Disposal Agreement, Strong Point Ventures shall pay to New Silver the Pinecrest Provisional Consideration. The difference between the Pinecrest Consideration and the Pinecrest Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Pinecrest Completion Accounts have been delivered to Strong Point Ventures.

The Company will publish further announcement(s) once the actual amount of the Pinecrest Consideration is confirmed.

### *Deposits*

Pursuant to the Pinecrest Disposal Agreement, Strong Point Ventures shall pay to New Silver the Pinecrest Deposits, which will be applied towards settlement of the Pinecrest Provisional Consideration at completion of the Pinecrest Disposal Agreement. Mr. Lau, Ming-wai has agreed to procure Global King and JLLHIL to undertake to the Company and New Silver that they shall (as agents and on behalf of Strong Point Ventures) pay or procure to pay to the Company (as agent of New Silver) the aggregate amount of such Pinecrest Special Dividend payable to them or their respective nominee(s) or custodian(s) by the Company (in the case of Global King, excluding the Pinecrest Excluded Special Dividend) as payment of the Pinecrest Deposits (or any part thereof).

If the Pinecrest Condition Precedent shall not have been satisfied on or before the Pinecrest Long Stop Date, or completion of the Pinecrest Disposal Agreement does not proceed and such non-completion does not arise as a result of the default of Strong Point Ventures or Mr. Lau, Ming-wai under the Pinecrest Disposal Agreement, New Silver shall return the Pinecrest Deposits (if any) without interest to Strong Point Ventures within 7 Business Days after receiving a written demand from Strong Point Ventures for the return.

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## LETTER FROM THE BOARD

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If the Pinecrest Condition Precedent shall have been satisfied but completion of the Pinecrest Disposal Agreement does not proceed and such non-completion arises as a result of the default of Strong Point Ventures or Mr. Lau, Ming-wai under the Pinecrest Disposal Agreement, such part of the Pinecrest Deposits equivalent to 10% of the Pinecrest Provisional Consideration shall be forfeited to New Silver and, whereupon, the balance of the Pinecrest Deposits (if any) then received by New Silver will be retained by New Silver as security for the payment of compensation for any additional losses and/or damages (if any) suffered by New Silver arising from such default until such losses and damages suffered by New Silver have been assessed in accordance with the Pinecrest Disposal Agreement. New Silver will, after deducting from the retained sum such losses and damages so assessed to the extent exceeding the amount of the Pinecrest Deposits so forfeited, return the remaining balance of the retained sum to Strong Point Ventures. In the event the aggregate amount of the Pinecrest Deposits received by New Silver at the time of forfeiture shall be less than 10% of the Pinecrest Provisional Consideration, New Silver shall be entitled to forfeit the entire Pinecrest Deposits and claim against Strong Point Ventures and/or Mr. Lau, Ming-wai to recover any further loss and/or damage (if any) suffered by New Silver, which shall be equal to the amount of the losses and damages suffered by New Silver as assessed in accordance with the Pinecrest Disposal Agreement less the total amount of the Pinecrest Deposits so forfeited, arising from such default.

Strong Point Ventures may elect to settle the Pinecrest Provisional Consideration (or any part thereof) by procuring certain Shareholders to apply their Pinecrest Dividend Entitlements, subject to completion of the Pinecrest Disposal Agreement, towards the payment of the Pinecrest Provisional Consideration and the Company will be authorised and instructed to pay such Pinecrest Dividend Entitlements to New Silver, in lieu of such Shareholders, to settle the Pinecrest Provisional Consideration to the extent of the aggregate amount of such Pinecrest Dividend Entitlements.

### ***Financing***

New Silver has agreed that, if Strong Point Ventures needs to raise loans or other borrowings from banks or third parties for its payment of the Pinecrest Provisional Consideration or the Pinecrest Consideration or any part thereof, on the basis of the Pinecrest Group providing guarantees or securities to such banks or third parties, and if so requested by Strong Point Ventures and subject to compliance with all applicable laws and regulations, New Silver will procure the Pinecrest Group to give reasonable assistance to Strong Point Ventures prior to or at completion of the Pinecrest Disposal Agreement to facilitate the provision of such securities by the Pinecrest Group and the obtaining of such financing by Strong Point Ventures upon completion of the Pinecrest Disposal Agreement.

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## LETTER FROM THE BOARD

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Given the above guarantee(s) or security(ies) if provided by the Pinecrest Group will only be provided if completion of the Pinecrest Disposal Agreement occurs, and that upon completion thereof, the Pinecrest Group will cease to be subsidiaries of the Company but become wholly-owned subsidiaries of Strong Point Ventures, such financial assistance will therefore be provided by the subsidiary(ies) of Strong Point Ventures. Hence, the assistance if provided by New Silver under the Pinecrest Disposal Agreement will be administrative assistance in facilitating Strong Point Ventures to obtain financing to complete the Pinecrest Disposal Agreement. Such administrative assistance is not unusual in sale and purchase transactions of this kind.

### ***Condition Precedent***

Completion of the Pinecrest Disposal Agreement is conditional upon the obtaining of the approval by the Independent Shareholders at the SGM in respect of the Pinecrest Disposal Agreement and the Pinecrest Disposal Transaction. As at the Latest Practicable Date, the Pinecrest Condition Precedent had not yet been fulfilled.

If the Pinecrest Condition Precedent shall not have been fulfilled on or before the Pinecrest Long Stop Date, the Pinecrest 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 Pinecrest Disposal Agreement).

### ***Completion***

Subject to the Pinecrest Condition Precedent having been satisfied, completion of the Pinecrest Disposal Agreement shall take place on the Pinecrest Completion Date. The parties to the Pinecrest Disposal Agreement undertake with each other parties thereto to use their respective reasonable endeavours and in good faith to proceed with completion of the Pinecrest Disposal Agreement as soon as practicable after the fulfilment of the Pinecrest Condition Precedent.

## **C. EFFECT OF THE DISPOSAL TRANSACTIONS**

### **(1) The Win Kings Disposal Transaction**

Upon completion of the Win Kings Disposal Agreement, the Win Kings Group will cease to be subsidiaries of the Company, and its consolidated financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

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## LETTER FROM THE BOARD

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Principal asset of the Win Kings Group is the Hong Kong Property which is currently recorded as stock of properties in the consolidated financial statements of the Group. During year 2015, the Hong Kong Property was reclassified from investment properties to stock of properties at its then fair value. Pursuant to the accounting policies of the Group, the Hong Kong Property (being stock of properties) is stated at the lower of cost and net realisable value in the consolidated financial statements of the Group. The Group expects to record a gain of approximately HK\$25.0 million from the Win Kings Disposal Transaction. This amount is calculated based on (i) the Win Kings Provisional Consideration; (ii) the unaudited consolidated net asset value of the Win Kings Group as at 15 November 2016 after adjusting the expected bank loan interest capitalised for the period from 16 November 2016 to the estimated date of issuance of certificate of compliance of the Hong Kong Property; (iii) the Win Kings Sale Loan less the Win Kings Assumed Debt as at 15 November 2016; and (iv) transaction costs of the Win Kings Disposal Transaction. The expected gain or loss on the Win Kings Disposal Transaction mainly represents the difference between (i) the Hong Kong Property Agreed Value of HK\$910 million for the purpose of ascertaining the consolidated net asset value of the Win Kings Group to determine the Win Kings Consideration and (ii) the aggregate of carrying amount of the Hong Kong Property as at the Win Kings Completion Date in the consolidated financial statements of the Group and the Estimated Outstanding Development Costs. The Hong Kong Property Agreed Value of HK\$910 million represents a premium of approximately 0.55% over the gross development value of the Hong Kong Property of HK\$905 million as determined by the Independent Property Valuer.

The actual gain or loss to be recorded might be different as the above estimate is based on (i) the Win Kings Consideration will not exceed the cap of HK\$1,050 million; (ii) the carrying amount of the Hong Kong Property in the consolidated financial statements of the Group as at 15 November 2016; and (iii) the Estimated Outstanding Development Costs as at 15 November 2016, which might be different from those as at the Win Kings Completion Date.

As aforementioned, following completion of the Win Kings Disposal Agreement, the Win Kings Group will cease to be subsidiaries of the Company and its consolidated 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 not be material since the operating expenses of the Win Kings Group is not significant as its property is still under development stage. It is expected that the completion of the Win Kings Disposal Agreement will result in a decrease in total assets and total liabilities of the Group by approximately HK\$858.7 million and HK\$112.5 million respectively (on the assumption that the amounts in the Win Kings Completion Accounts are the same as those in the unaudited consolidated accounts of the Win Kings Group as at 15 November 2016) upon deconsolidation of the Win Kings Group. Meanwhile, on the assumption that the Win Kings Consideration is the same as the Win Kings Provisional Consideration, total assets of the Group will increase by approximately HK\$772.8 million which represents the net sale proceeds from the Win Kings Disposal Transaction. The Win Kings Group had outstanding Win Kings Bank Loan of HK\$110 million as at 15 November 2016. The Win Kings Bank Loan may or may not be fully repaid prior to completion of the Win Kings Disposal Agreement. In any event, the level of borrowings of the Group shall be reduced after completion of the Win Kings Disposal Agreement. As explained above, it is estimated that the Group will record a net gain on disposal and the consolidated net asset value of the Group will increase accordingly.



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## LETTER FROM THE BOARD

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### (2) The Pinecrest Disposal Transaction

Upon completion of the Pinecrest Disposal Agreement, the Pinecrest Group will cease to be subsidiaries of the Company, and its consolidated financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

Principal assets of the Pinecrest Group are the PRC Properties which are recorded as investment properties in the consolidated financial statements of the Group. Pursuant to the accounting policies of the Group, the PRC Properties (being investment properties) are measured at fair values in the consolidated financial statements of the Group. Gains and losses arising from changes in the fair values of the PRC Properties are included in profit or loss for the period in which they arise. Accordingly, the PRC Properties will be measured at their fair values on the Pinecrest Completion Date. Any changes in the fair values of the PRC Properties on the Pinecrest Completion Date to those stated in the consolidated financial statements of the Group will be included in profit or loss as fair value gains or losses.

The gain or loss on the Pinecrest Disposal Transaction mainly consists of the following components: (i) the fair value gains or losses as a result of the fair value changes of the PRC Properties from 16 November 2016 to the Pinecrest Completion Date; (ii) the premium of approximately HK\$7.1 million (being the difference between the PRC Properties Agreed Value of HK\$360 million for the purpose of ascertaining the consolidated net asset value of the Pinecrest Group to determine the Pinecrest Consideration and the carrying amounts of the PRC Properties as at 15 November 2016); and (iii) the carrying amounts of deferred tax liabilities and assets attributable to the PRC Properties as at the Pinecrest Completion Date. The Group expects to record a gain of approximately HK\$80.7 million from the Pinecrest Disposal Transaction. This amount is calculated based on (i) the Pinecrest Provisional Consideration; (ii) the unaudited consolidated net asset value of the Pinecrest Group as at 30 September 2016 (after adjusting the carrying amounts of the PRC Properties to their market values as at 15 November 2016 and related deferred tax); (iii) the Pinecrest Sale Loan less the Pinecrest Assumed Debt as at 30 September 2016; (iv) transaction costs of the Pinecrest Disposal Transaction; and (v) release of translation reserve of the Pinecrest Group as at 30 September 2016. The PRC Properties Agreed Value of HK\$360 million represents a premium of approximately 2.01% over the market value of the PRC Properties as at 15 November 2016 of approximately HK\$352.9 million as determined by the Independent Property Valuer.

The actual gain or loss to be recorded might be different as the above estimate is based on (i) the Pinecrest Consideration will not exceed the cap of HK\$500 million; (ii) the unaudited consolidated net asset value of the Pinecrest Group as at 30 September 2016 after adjusting the carrying amounts of the PRC Properties to their market values as at 15 November 2016 and related deferred tax; (iii) the Pinecrest Sale Loan less the Pinecrest Assumed Debt as at 30 September 2016; and (iv) translation reserve of the Pinecrest Group as at 30 September 2016, which might be different from those as at the Pinecrest Completion Date.



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## LETTER FROM THE BOARD

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As aforementioned, following completion of the Pinecrest Disposal Agreement, the Pinecrest Group will cease to be subsidiaries of the Company and its consolidated financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group. Rental income of the PRC Properties will not be recorded in the consolidated financial statements of the Group following completion of the Pinecrest Disposal Agreement, and this will lead to a drop of rental income of the Group and the Group expects that the earnings will be decreased following the drop of net rental income from the PRC Properties. It is expected that the completion of the Pinecrest Disposal Agreement will result in a decrease in total assets and total liabilities of the Group by approximately HK\$406.7 million and HK\$90.3 million respectively (on the assumption that the amounts in the Pinecrest Completion Accounts are the same as those in the unaudited consolidated accounts of the Pinecrest Group as at 30 September 2016 (after adjusting the carrying amounts of the PRC Properties to their market values as at 15 November 2016 and related deferred tax)) upon deconsolidation of the Pinecrest Group. Meanwhile, on the assumption that the Pinecrest Consideration is the same as the Pinecrest Provisional Consideration, total assets of the Group will increase by approximately HK\$394.8 million which represents the net sale proceeds from the Pinecrest Disposal Transaction. As explained above, it is estimated that the Group will record net gain of approximately HK\$80.7 million and release of translation reserve of approximately HK\$2.3 million on the Pinecrest Disposal Transaction, and the consolidated net asset value of the Group will increase accordingly.

### **D. INFORMATION OF THE GROUP AND THE VENDORS**

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

Paul Y. is an investment holding company incorporated in the Cayman Islands and a direct wholly-owned subsidiary of the Company.

New Silver is an investment holding company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company.

### **E. INFORMATION OF THE PURCHASERS**

Creative Dragon Ventures is an investment holding company incorporated in the BVI and established by Ms. Chan, Hoi-wan for the purpose of holding the assets to be acquired under the Win Kings Disposal Agreement.

Strong Point Ventures is an investment holding company incorporated in the BVI and established by Mr. Lau, Ming-wai for the purpose of holding the assets to be acquired under the Pinecrest Disposal Agreement.

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## LETTER FROM THE BOARD

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### F. INFORMATION OF THE ASSETS TO BE DISPOSED OF

#### (1) The Win Kings Disposal Agreement

##### *Information of the Win Kings Group*

Win Kings is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of Paul Y.. Stable Castle is a property development company incorporated in Hong Kong that owns the Hong Kong Property and a direct wholly-owned subsidiary of Win Kings.

As at the Latest Practicable Date, other than the Hong Kong Property, the Win Kings Group did not have any other material assets.

A summary of the unaudited consolidated results of the Win Kings Group for each of the two years ended 31 December 2014 and 2015 prepared in accordance with HKFRSs is set out below:–

	<b>For the year ended 31 December 2014 (HK\$ million)</b>	<b>For the year ended 31 December 2015 (HK\$ million)</b>
Revenue	–	–
Fair value changes on investment properties	62.3	226.0
Profit before tax	62.3	225.9
Profit after tax	62.3	225.9

As at 15 November 2016, the unaudited consolidated net asset value of the Win Kings Group was approximately HK\$234.0 million, the amount of the Win Kings Sale Loan was approximately HK\$512.2 million and the amount of the Win Kings Assumed Debt was nil.

##### *Information of the Hong Kong Property*

<b>Hong Kong Property</b>	<b>Usage</b>	<b>Attributable interests to the Group</b>
The piece of land situated at No. 12 Shiu Fai Terrace, Mid-Levels East, Hong Kong and the building now under construction thereon	Residential	100%

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## LETTER FROM THE BOARD

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### (2) The Pinecrest Disposal Agreement

#### *Information of the Pinecrest Group*

Pinecrest is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of New Silver. Pinecrest owns 100% interest in (i) 79 companies (each of them being a property investment company incorporated in Hong Kong which owns one of the shops of the PRC Properties); (ii) King Lord Investments Limited (an investment holding company incorporated in Hong Kong); and (iii) 愛美高物業管理(深圳)有限公司 (Evergo Property Management (Shenzhen) Company Limited) (a property management company incorporated in the PRC).

As at the Latest Practicable Date, other than the PRC Properties, the Pinecrest Group did not have any other material assets.

A summary of the unaudited consolidated results of the Pinecrest Group for each of the two years ended 31 December 2014 and 2015 prepared in accordance with HKFRSs is set out below:–

	<b>For the year ended 31 December 2014 (HK\$ million)</b>	<b>For the year ended 31 December 2015 (HK\$ million)</b>
Revenue	32.9	32.8
Fair value changes on investment properties	(14.3)	(25.0)
Profit before tax	15.2	5.4
Profit after tax	16.5	9.1

As at 30 September 2016, the unaudited consolidated net asset value of the Pinecrest Group was approximately HK\$551.8 million, the amount of the Pinecrest Assumed Debt was approximately HK\$237.4 million and the amount of the Pinecrest Sale Loan was nil.

#### *Information of the PRC Properties*

<b>PRC Properties</b>	<b>Usage</b>	<b>Attributable interests to the Group</b>
Shop Nos. 1001 to 1027, 1044 to 1045, 1047 to 1057, 1059 to 1072, 1084 to 1086, 1088 to 1089, 1092 to 1105, 1112 to 1117 on 1st floor of Lowu Commercial Plaza, Jianshe Road, Luohu District, Shenzhen City, Guangdong Province, the PRC	Commercial	100%

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## LETTER FROM THE BOARD

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### G. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTIONS

The residential property market in Hong Kong had been moving upwards for over the past ten years until reaching the peak level in the third quarter of year 2015. A short-term slight adjustment was observed thereafter but the upward trend picked up again in the second quarter of year 2016. According to the statistics released by the Rating and Valuation Department of Hong Kong on 30 November 2016, the Private Domestic Price Index for all classes of residential properties attained the peak of 306.1 in September 2015, followed by a trough of 271.4 in March 2016 before bouncing back to the provisional level of 303.8 in October 2016. 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 imposed on second-home buyers. In addition, with the generally unexpected outcome of the presidential election of the United States of America in early November 2016, the uncertainty around global markets has 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 0.5% to 0.75% in mid of December 2016 and a further increase in 2017 is also anticipated. In view of the adverse impact from such changes in the macro-environment and the increasing risks of uncertainty in the local property market, the Board considers that this would be an appropriate time to dispose of the Hong Kong Property to maximise the return and unlock the value of the Company's investment in the Hong Kong Property in light of the possible downturn of the property market in Hong Kong.

On the other hand, commercial development of Luohu District of Shenzhen City, Guangdong Province, the PRC appears to have matured and saturated. With reference to the information released by the government of Luohu District on the internet, the retail sales of traditional commercial areas near Lowu Commercial Plaza within Luohu District as a proportion to the district's total sales dropped from 40% in year 2012 to 34% in year 2015. The rental index of shopping malls located in Luohu District has also shown signs of level-off in year 2016. Certain new retail projects in both prime and non-prime areas of Luohu District have been launched since year 2016, leading to potential pressure on future rents and occupancy rates in these areas. The Board is therefore of the view that despite that the Group will forgo the stable and considerable rental income from the PRC Properties, the time now is opportune for the Group to dispose of the PRC Properties in order to grasp the possible maximum return therefrom before the turnaround tendency of the retail property market of Luohu District solidifies.

The Win Kings Consideration and the Pinecrest Consideration are determined by reference to, among other things, the market value of the Hong Kong Property and the PRC Properties as at 15 November 2016 respectively as evaluated by the Independent Property Valuer and will be settled entirely by cash. The structure of the Disposal Transactions is alike one of the Windsor Transactions which were approved by an overwhelming majority of the then independent Shareholders at the Company's special general meeting held in February 2016. The Board is of the opinion that this is a promising indication from the then independent Shareholders that they were in concurrence with the Group's business strategies of adjusting its property portfolio mix and realising its property investment at appropriate time. Given that as at the Latest Practicable Date, the Company had not identified any potential investment opportunities,

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## LETTER FROM THE BOARD

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and there was neither any imminent mega property development projects contemplated nor other major projects which may require substantial cash investment in the near future, the Board intends to follow the past successful model where a majority of the net sale proceeds derived from the Win Kings Disposal Transaction and the Pinecrest Disposal Transaction may be used to pay the Win Kings Special Dividend and/or the Pinecrest Special Dividend, respectively, to the Shareholders. Further details are set out in the section headed “Use of Proceeds” below. The Board considers that the possible distribution of the Win Kings Special Dividend and/or the Pinecrest Special Dividend would facilitate the enhancement of return to the Shareholders and allow them to realise the intrinsic value of the Shares in the form of special dividends.

Having considered the above, the Board (including the independent non-executive Directors, after taking into account the opinion and advice from Gram Capital) considers that the terms of each of the Disposal Agreements are fair and reasonable and 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.

### **H. USE OF PROCEEDS**

Based on the assumption that the Win Kings Provisional Consideration will be the same as the Win Kings Consideration, it is estimated that the net sale proceeds arising from the Win Kings Disposal Transaction would be approximately HK\$772.8 million, after deducting the transaction costs related to the Win Kings Disposal Transaction of approximately HK\$4.0 million.

Subject to the then business, financial and cashflow position of the Group at completion of the Win Kings Disposal Agreement and assuming the Win Kings Disposal Transaction shall have been approved by the Independent Shareholders at the SGM, it is currently intended that the majority part of the net sale proceeds which may be generated from the Win Kings Disposal Transaction may be used to pay the Win Kings Special Dividend to the Shareholders on or after completion of the Win Kings Disposal Agreement (which is scheduled under the Win Kings Disposal Agreement to be on or before 31 December 2017) in one or more phases. The Group expects that the aggregate amount approximate to but not more than the net sale proceeds from the Win Kings Disposal Transaction will be applied to the payment of the Win Kings Special Dividend and the remaining will be applied to general working capital, mainly for the payment of the operating expenses of the Group. In this regard, the Win Kings Disposal Transaction would enable the Shareholders to benefit from the Win Kings Special Dividend. The Board 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 Win Kings Disposal Transaction before any Win Kings Special Dividend is proposed and declared.

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## LETTER FROM THE BOARD

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Based on the assumption that the Pinecrest Provisional Consideration will be the same as the Pinecrest Consideration, it is estimated that the net sale proceeds arising from the Pinecrest Disposal Transaction would be approximately HK\$394.8 million, after deducting the transaction costs related to the Pinecrest Disposal Transaction of approximately HK\$5.0 million.

Subject to the then business, financial and cashflow position of the Group at completion of the Pinecrest Disposal Agreement and assuming the Pinecrest Disposal Transaction shall have been approved by the Independent Shareholders at the SGM, it is currently intended that the majority part of the net sale proceeds which may be generated from the Pinecrest Disposal Transaction may be used to pay the Pinecrest Special Dividend to the Shareholders on or after completion of the Pinecrest Disposal Agreement (which is scheduled under the Pinecrest Disposal Agreement to be on or before 31 December 2017) in one or more phases. The Group expects that the aggregate amount approximate to but not more than the net sale proceeds from the Pinecrest Disposal Transaction will be applied to the payment of the Pinecrest Special Dividend and the remaining will be applied to general working capital, mainly for the payment of the operating expenses of the Group. In this regard, the Pinecrest Disposal Transaction would enable the Shareholders to benefit from the Pinecrest Special Dividend. The Board 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 Pinecrest Disposal Transaction before any Pinecrest Special Dividend is proposed and declared.

As there is currently no imminent mega property development projects contemplated or other major projects which requires substantial cash investment in the near future, the Board considers that the distribution of the Win Kings Special Dividend and/or the Pinecrest Special Dividend, if materialised, is in the interests of the Company and the Shareholders as a whole. If the Company does not proceed with the distribution of the Win Kings Special Dividend and/or the Pinecrest Special Dividend, the net sale proceeds from the relevant Disposal Transaction will be used 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 as at the Latest Practicable Date. Further announcement(s) would be made by the Company in relation to the proposed distribution of the Win Kings Special Dividend and/or the Pinecrest Special Dividend, if any, as and when appropriate.

### **I. LISTING RULES IMPLICATION FOR THE DISPOSAL TRANSACTIONS**

As the Disposal Agreements were entered into within 12 months after the completion of the Windsor Agreements, and all such agreements were entered into by the Company with parties connected with each other, the Disposal Transactions and the Windsor 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 Transactions (when aggregated with the Windsor Transactions) exceed 25% but are less than 75%, the Disposal Transactions constitute major transactions for the Company and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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## LETTER FROM THE BOARD

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As Ms. Chan, Hoi-wan, being an associate of three Directors (namely Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Mr. Lau, Ming-wai) and an associate of a substantial shareholder and controlling shareholder of the Company (namely Mr. J. Lau), is the sole director and the sole beneficial owner of Creative Dragon Ventures, Ms. Chan, Hoi-wan and Creative Dragon Ventures are connected persons of the Company. In addition, as Mr. Lau, Ming-wai, being a Director, is the sole director and the sole beneficial owner of Strong Point Ventures, Mr. Lau, Ming-wai and Strong Point Ventures are connected persons of the Company. Accordingly, the Disposal Transactions also constitute connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of their relationship with Ms. Chan, Hoi-wan, who is the sole director and the sole beneficial owner of Creative Dragon Ventures, Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Mr. Lau, Ming-wai abstained from voting on the Board resolutions approving the Win Kings Disposal Agreement and the Win Kings Disposal Transaction notwithstanding that none of them has material interest in the Win Kings Disposal Transaction. As Mr. Lau, Ming-wai, who is the sole director and the sole beneficial owner of Strong Point Ventures, has a material interest in the Pinecrest Disposal Transaction, Mr. Lau, Ming-wai and (in view of their relationship with Mr. Lau, Ming-wai; notwithstanding that none of them has material interest in the Pinecrest Disposal Transaction) Ms. Chan, Sze-wan and Ms. Chan, Lok-wan abstained from voting on the Board resolutions approving the Pinecrest Disposal Agreement and the Pinecrest Disposal Transaction. Save as disclosed above, no other Directors abstained from voting on the Board resolutions approving the Disposal Agreements and the Disposal Transactions.

### **J. 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 Agreements and the Disposal Transactions.

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 Agreements and the Disposal Transactions.

### **K. SGM**

The Company will convene the SGM at Falcon Room, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 13 January 2017 at 10:00 a.m. to consider the Disposal Agreements and the Disposal Transactions. Ordinary resolutions 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-3 of this circular.



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## LETTER FROM THE BOARD

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Any Shareholder with a material interest in the relevant Disposal Transaction and his/her/its associate(s) are required to abstain from voting on the resolutions approving the relevant Disposal Agreement and the relevant Disposal Transaction in accordance with the Listing Rules. Accordingly, each of Ms. Chan, Hoi-wan (who is the sole director and the sole beneficial owner of Creative Dragon Ventures) and Mr. Lau, Ming-wai (who is the sole director and the sole beneficial owner of Strong Point Ventures) and their respective associate(s) (if they hold any Shares) will abstain from voting on the resolutions approving the relevant Disposal Agreement and the relevant Disposal Transaction to which he/she is a party (as the case may be) in accordance with Rule 14.46 and Rule 14A.36 of 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 associate of three Directors and an associate of a substantial shareholder and controlling shareholder of the Company and is the sole director and the sole beneficial owner of Creative Dragon Ventures, each of Ms. Chan, Hoi-wan and Creative Dragon Ventures is a Related Party for the purpose of the Stock Exchange Undertaking. In addition, as Mr. Lau, Ming-wai is a Director and is the sole director and the sole beneficial owner of Strong Point Ventures, each of Mr. Lau, Ming-wai and Strong Point Ventures is a Related Party for the purpose of the Stock Exchange Undertaking. The Disposal Transactions will therefore constitute Specified Transactions and will be subject to approval by the Shareholders at the SGM at which any Shareholder who is a Related Party will abstain from voting.

In view of the above, to the best knowledge of the Company, as at the Latest Practicable Date, nine 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 resolutions approving the relevant Disposal Agreements and the relevant Disposal Transactions. Out of the aforesaid 1,643,603,917 Shares, Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai were deemed to be interested in 1,430,700,768 Shares, representing approximately 74.99% of the total issued Shares. These Shares were held by Global King (in respect of 1,199,715,948 Shares, representing approximately 62.89% of the total issued Shares) and JLLHIL (in respect of 230,984,820 Shares, representing approximately 12.10% of the total issued Shares), both of which are indirectly owned by a discretionary trust (the “**Discretionary Trust**”). Each of Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai is an eligible beneficiary of the Discretionary Trust. The remaining 212,903,149 Shares, representing approximately 11.16% of the total issued Shares, were respectively held by an associate of Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai; and two other Related Parties (either personally and/or through their controlled company(ies)). None of the Shareholders holding the aforesaid 212,903,149 Shares, representing approximately 11.16% of the total issued Shares, is a core connected person of the Company.



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## LETTER FROM THE BOARD

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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.

### L. 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 Agreements and the Disposal Transactions as well as the principal factors and reasons considered by it in arriving at such advice set out on pages IFA-1 to IFA-18 of this circular.

The Directors (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, consider that the terms of the Disposal Agreements and the Disposal Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and the Disposal Agreements and the Disposal Transactions 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 Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolutions approving the respective Disposal Agreements and the respective Disposal Transactions contemplated thereunder at the SGM.

### M. GENERAL

**Shareholders and potential investors of the Company should note that completion of each of the Disposal Agreements is subject to the satisfaction of their respective condition precedent, namely, the obtaining of the approval by the Independent Shareholders at the SGM in respect of the relevant Disposal Agreement and the relevant Disposal Transaction. Therefore, the Disposal Transactions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in 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.**

### N. 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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*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)**

28 December 2016

*To the Independent Shareholders*

Dear Sir or Madam,

#### **MAJOR AND CONNECTED TRANSACTIONS IN RESPECT OF DISPOSAL OF SUBSIDIARIES**

We refer to the circular issued by the Company to its Shareholders dated 28 December 2016 (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 Agreements were entered into within 12 months after the completion of the Windsor Agreements, and all such agreements were entered into by the Company with parties connected with each other, the Disposal Transactions and the Windsor 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 Transactions (when aggregated with the Windsor Transactions) exceed 25% but are less than 75%, the Disposal Transactions constitute major transactions for the Company. The Disposal Transactions also constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As such, the Disposal Transactions are 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 Agreements and the Disposal Transactions and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, the terms of the Disposal Agreements and the Disposal Transactions are fair and reasonable, and whether the Disposal Agreements and the Disposal Transactions 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.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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 Agreements and the Disposal Transactions are fair and reasonable, and the Disposal Agreements and the Disposal Transactions 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 Agreements and the Disposal Transactions 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 resolutions approving the respective Disposal Agreements and the respective Disposal Transactions 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*

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## LETTER FROM GRAM CAPITAL

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*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 Agreements and the Disposal Transactions 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

28 December 2016

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

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTIONS DISPOSAL OF SUBSIDIARIES**

#### **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 Agreements and the Disposal Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 28 December 2016 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 5 December 2016, (i) Paul Y. as vendor, the Company as vendor guarantor, Creative Dragon Ventures as purchaser and Ms. Chan, Hoi-wan as purchaser guarantor entered into the Win Kings Disposal Agreement relating to, among others, the sale and purchase of the Win Kings Sale Share and the Win Kings Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Win Kings Bank Loan Document(s)); and (ii) New Silver as vendor, the Company as vendor guarantor, Strong Point Ventures as purchaser and Mr. Lau, Ming-wai as purchaser guarantor entered into the Pinecrest Disposal Agreement relating to, among others, the sale and purchase of the Pinecrest Sale Share and the Pinecrest Sale Loan free from all Encumbrances.

With reference to the Board Letter, the Disposal Transactions constitute major and connected transactions for the Company under Chapters 14 and 14A of the Listing Rules respectively. As such, the Disposal Transactions are subject to the reporting, announcement, circular and Shareholders’/Independent Shareholders’ approval requirements under the Listing Rules. Moreover, the Disposal Transactions constitute Specified Transactions 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.

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## LETTER FROM GRAM CAPITAL

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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 Agreements and the Disposal Transactions are fair and reasonable; (ii) whether the Disposal Agreements and the Disposal Transactions are on normal commercial terms; (iii) whether the Disposal Agreements and the Disposal Transactions 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 resolutions to approve the Disposal Agreements and the Disposal Transactions 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.

### OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off (i) the opinion letter from the independent financial adviser contained in the circular dated 7 January 2015 in respect of the major and connected transaction for the Company; and (ii) the opinion letter from the independent financial adviser contained in the circular dated 15 January 2016 in respect of the major and connected transactions for the Company. Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Group, Creative Dragon Ventures, Ms. Chan, Hoi-wan, Strong Point Ventures and Mr. Lau, Ming-wai or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

### 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 are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Disposal Transactions. 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.

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## LETTER FROM GRAM CAPITAL

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We have not made an independent evaluation or appraisal of the assets and liabilities of either the Group, the Win Kings Group or the Pinecrest Group and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report dated 28 December 2016 prepared by the Independent Property Valuer, in respect of the Properties (the “**Valuation Report**”). The Valuation Report was prepared in accordance with The HKIS Valuation Standards 2012 Edition issued by The Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Listing Rules. We are not experts in the valuation of properties and therefore have relied solely upon the Valuation Report for the market value of the Properties as at 15 November 2016.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save as 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, the Win Kings Group, the Pinecrest Group, Creative Dragon Ventures, Ms. Chan, Hoi-wan, Strong Point Ventures and Mr. Lau, Ming-wai 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 Agreements and the Disposal Transactions. 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.

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.

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# LETTER FROM GRAM CAPITAL

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Background of and reasons for the Disposal Transactions

#### *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 financial information of the Group as extracted from the Company's 2015 annual report (the "2015 Annual Report") and its 2016 interim report (the "2016 Interim Report"):

	<b>For the year ended 31 December 2015</b> <i>HK\$'000</i>
Revenue ( <i>audited</i> )	1,542,397
– Property rental income	1,325,875
– Sales of properties held for sale	151,616
– Loss on sales of investments held-for-trading	(2,415)
– Hotel operation income	49,125
– Brokerage and cosmetic income	18,196
 Profit for the year ( <i>audited</i> )	 7,719,731
	 <b>As at 30 June 2016</b> <i>HK\$'000</i>
 Total equity ( <i>unaudited</i> )	 37,158,225

#### *Business review of the Group*

##### *Property investment*

Rental income from investment properties is one of the major sources of the Group's revenue. According to the 2016 Interim Report, the overall occupancy rate of the Group's retail portfolio in Hong Kong was approximately 94.00% during the six months ended 30 June 2016 (the "2016 First Half") which was attributable to the prime locations of the Group's retail properties.

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## LETTER FROM GRAM CAPITAL

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As at the Latest Practicable Date, the Group's major retail properties in Hong Kong held for rental purpose included "Causeway Place", "Olympian City 3" (which the Group is effectively sharing 25% interest) and "Coronation Circle" (which the Group is effectively sharing 15% interest). Located in Causeway Bay, the average occupancy rate of those shops of "Causeway Place" owned by the Group was approximately 80.48% for the 2016 First Half. As for "Olympian City 3" and "Coronation Circle" (being the retail mall in "The Hermitage" residences and "The Coronation" residences located in West Kowloon respectively), all the shops of "Olympian City 3" were fully let out as at 30 June 2016 and the average occupancy rate of the shops of "Coronation Circle" was approximately 57.89% for the 2016 First Half.

The occupancy rate for the Group's office properties in Hong Kong maintained at a high level throughout the 2016 First Half. During the 2016 First Half, the average occupancy rate of "Harcourt House" was approximately 98.07%.

During the 2016 First Half, the 79 retail outlets owned by the Group with a total area of approximately 29,000 square feet in Lowu Commercial Plaza, Shenzhen City (i.e. the PRC Properties) were fully let out. The Group also holds several properties for rental purpose in Beijing, the PRC. Besides the aforesaid, the Group's overseas property investment includes two Grade A freehold office buildings and one freehold mixed-use building in London of the United Kingdom and all were fully let out as at 30 June 2016.

### *Property development*

For the year ended 31 December 2015, approximately 9.83% of the Group's revenue was derived from sales of properties held for sale. With reference to the 2015 Annual Report as well as the 2016 Interim Report, the Group's property development projects in Hong Kong had been progressing satisfactorily in both year 2015 and the 2016 First Half.

### ***Information on the Win Kings Group***

Win Kings is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of Paul Y.. Stable Castle is a property development company incorporated in Hong Kong that owns the Hong Kong Property and a direct wholly-owned subsidiary of Win Kings. As at the Latest Practicable Date, other than the Hong Kong Property, the Win Kings Group did not have any other material assets.

As also disclosed in the Board Letter, the Win Kings Group recorded no revenue and profit after tax of approximately HK\$225.9 million for the year ended 31 December 2015. As at 15 November 2016, the unaudited consolidated net asset value of the Win Kings Group was approximately HK\$234.0 million, the amount of the Win Kings Sale Loan was approximately HK\$512.2 million and the amount of the Win Kings Assumed Debt was nil.



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## LETTER FROM GRAM CAPITAL

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### ***Information on the Pinecrest Group***

Pinecrest is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of New Silver. Pinecrest owns 100% interest in (i) 79 companies (each of them being a property investment company incorporated in Hong Kong which owns one of the shops of the PRC properties); (ii) King Lord Investments Limited (an investment holding company incorporated in Hong Kong); and (iii) 愛美高物業管理(深圳)有限公司 (Evergo Property Management (Shenzhen) Company Limited) (a property management company incorporated in the PRC). As at the Latest Practicable Date, other than the PRC Properties, the Pinecrest Group did not have any other material assets.

As also disclosed in the Board Letter, the Pinecrest Group recorded approximately HK\$32.8 million of revenue and approximately HK\$9.1 million of profit after tax for the year ended 31 December 2015. As at 30 September 2016, the unaudited consolidated net asset value of the Pinecrest Group was approximately HK\$551.8 million, the amount of the Pinecrest Sale Loan was nil and the amount of the Pinecrest Assumed Debt was approximately HK\$237.4 million.

### ***Reasons for the Disposal Transactions and use of proceeds***

#### ***Reasons for the Disposal Transactions***

In view of the adverse impact from the changes in the macro-environment as set out under the section headed “G. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTIONS” of the Board Letter, and the increasing risks of uncertainty in the local property market, the Board considers that this would be an appropriate time to dispose of the Hong Kong Property to maximise the return and unlock the value of the Company’s investment in the Hong Kong Property in light of the possible downturn of the property market in Hong Kong.

Set out below are some market statistics released by the Rating and Valuation Department of Hong Kong:

#### **Property market yields for Class D (i.e. saleable area of 100 square meters (“sq.m.”) to 159.9 sq.m.) private domestic units (Note)**

2011	2012	2013	2014	2015	3rd quarter of 2016
2.7%	2.5%	2.4%	2.4%	2.4%	2.4%

#### **Price index for Class D (i.e. saleable area of 100 sq.m. to 159.9 sq.m.) private domestic units (Note)**

2011	2012	2013	2014	2015	3rd quarter of 2016
213.3	226.0	244.9	247.8	269.4	265.6

*Note:* With reference to the Valuation Report, upon completion of construction, the Hong Kong Property will accommodate 24 flats (with estimated saleable areas ranging from 102.476 sq.m. (1,103 square feet) to 153.578 sq.m. (1,653 square feet) or thereabout).

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## LETTER FROM GRAM CAPITAL

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As depicted from the above tables, the property market yields for Class D private domestic units dropped from 2011 to 2013 and remain stable up to the third quarter of 2016. In addition, the price index for Class D private domestic units surged from 2011 to its peak in 2015. The price index for Class D private domestic units in 3rd quarter of 2016 reached a similar level of 2015.

In addition, we also noticed that 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 0.5% to 0.75% in the middle of December 2016.

The above findings are consistent with the market condition set out under the section headed “G. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTIONS” of the Board Letter and supportive to the Directors’ view that this would be an appropriate time to dispose of the Hong Kong Property to maximise the return and unlock the value of the Company’s investment in the Hong Kong Property.

On the other hand, commercial development of Luohu District of Shenzhen City, Guangdong Province, the PRC appears to have matured and saturated. Certain new retail projects in both prime and non-prime areas of Luohu District have been launched since year 2016, leading to potential pressure on future rents and occupancy rates in these areas. The Board is therefore of the view that despite that the Group will forgo the stable and considerable rental income from the PRC Properties, the time now is opportune for the Group to dispose of the PRC Properties in order to grasp the possible maximum return therefrom before the turnaround tendency of the retail property market of Luohu District solidifies.

Set out below are some market statistics relating to the PRC Properties:

**Guiding rental rate (房屋租賃指導租金) of units on first floor of Lowu Commercial Plaza per sq.m. (Renminbi (“RMB”)/month)**

2011	2012	2013	2014	2015	2016
600	650	650	650	600	600

*Source: Guiding rental rate schedules of Luohu District (羅湖區房屋租賃指導租金表) as published by the E-government Website of Luohu District (羅湖區電子政務網, [www.szlh.gov.cn](http://www.szlh.gov.cn))*

As depicted from the above table, the guiding rental rate of units on first floor of Lowu Commercial Plaza per sq.m. increased from RMB600/month in 2011 to RMB650/month in 2012 and remained at the same level in 2013 and 2014. Such guiding rental rate then dropped back to RMB600/month in 2015 and remained the same in 2016.

The above findings are consistent with the market condition set out under the section headed “G. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTIONS” of the Board Letter and supportive to the Directors’ view that the time now is opportune for the Group to dispose of the PRC Properties in order to grasp the possible maximum return therefrom.

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## LETTER FROM GRAM CAPITAL

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The structure of the Disposal Transactions is alike one of the Windsor Transactions which were approved by an overwhelming majority of the then independent Shareholders at the Company's special general meeting held in February 2016. The Board is of the opinion that this is a promising indication from the then independent Shareholders that they were in concurrence with the Group's business strategies of adjusting its property portfolio mix and realising its property investment at appropriate time. Given that as at the Latest Practicable Date, the Company had not identified any potential investment opportunities, and there was neither any imminent mega property development projects contemplated nor other major projects which may require substantial cash investment in the near future, the Board intends to follow the past successful model where a majority of the net sale proceeds derived from the Win Kings Disposal Transaction and the Pinecrest Disposal Transaction may be used to pay the Win Kings Special Dividend and/or the Pinecrest Special Dividend, respectively, to the Shareholders.

### *Use of proceeds*

Based on the assumption that the Win Kings Provisional Consideration will be the same as the Win Kings Consideration, it is estimated that the net sale proceeds arising from the Win Kings Disposal Transaction would be approximately HK\$772.8 million, after deducting the transaction costs related to the Win Kings Disposal Transaction of approximately HK\$4.0 million.

Subject to the then business, financial and cashflow position of the Group at completion of the Win Kings Disposal Agreement and assuming the Win Kings Disposal Transaction shall have been approved by the Independent Shareholders at the SGM, it is currently intended that the majority part of the net sale proceeds which may be generated from the Win Kings Disposal Transaction may be used to pay the Win Kings Special Dividend to the Shareholders on or after completion of the Win Kings Disposal Agreement (which is scheduled under the Win Kings Disposal Agreement to be on or before 31 December 2017) in one or more phases. The Group expects that the aggregate amount approximate to but not more than the net sale proceeds of the Win Kings Disposal Transaction will be applied to the payment of the Win Kings Special Dividend and the remaining will be applied to general working capital, mainly for the payment of the operating expenses of the Group. In this regard, the Win Kings Disposal Transaction would enable the Shareholders to benefit from the Win Kings Special Dividend. The Board 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 Win Kings Disposal Transaction before any Win Kings Special Dividend is proposed and declared.

Based on the assumption that the Pinecrest Provisional Consideration will be the same as the Pinecrest Consideration, it is estimated that the net sale proceeds arising from the Pinecrest Disposal Transaction would be approximately HK\$394.8 million, after deducting the transaction costs related to the Pinecrest Disposal Transaction of approximately HK\$5.0 million.

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## LETTER FROM GRAM CAPITAL

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Subject to the then business, financial and cashflow position of the Group at completion of the Pinecrest Disposal Agreement and assuming the Pinecrest Disposal Transaction shall have been approved by the Independent Shareholders at the SGM, it is currently intended that the majority part of the net sale proceeds which may be generated from the Pinecrest Disposal Transaction may be used to pay the Pinecrest Special Dividend to the Shareholders on or after completion of the Pinecrest Disposal Agreement (which is scheduled under the Pinecrest Disposal Agreement to be on or before 31 December 2017) in one or more phases. The Group expects that the aggregate amount approximate to but not more than the net sale proceeds of the Pinecrest Disposal Transaction will be applied to the payment of the Pinecrest Special Dividend and the remaining will be applied to general working capital, mainly for the payment of the operating expenses of the Group. In this regard, the Pinecrest Disposal Transaction would enable the Shareholders to benefit from the Pinecrest Special Dividend. The Board 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 Pinecrest Disposal Transaction before any Pinecrest Special Dividend is proposed and declared.

As there is currently no imminent mega property development projects contemplated or other major projects which requires substantial cash investment in the near future, the Board considers that the distribution of the Win Kings Special Dividend and/or the Pinecrest Special Dividend, if materialised, is in the interests of the Company and the Shareholders as a whole. If the Company does not proceed with the distribution of the Win Kings Special Dividend and/or the Pinecrest Special Dividend, the net sale proceeds from the relevant Disposal Transaction will be used 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.

Taking into account that (i) the Windsor Transactions had been well received by the then independent Shareholders and the Disposal Transactions follow the successful model of the Windsor Transactions; (ii) the possible distribution of the Win Kings Special Dividend and/or Pinecrest Special Dividend using the net sale proceeds from the relevant Disposal Transactions would be beneficial to the Shareholders; (iii) this would be an appropriate time to dispose of the Hong Kong Property to maximise the return and unlock the value of the Company's investment in the Hong Kong Property in light of the possible downturn of the property market in Hong Kong; (iv) the time now is opportune for the Group to dispose of the PRC Properties in order to grasp the possible maximum return therefrom before the turnaround tendency of the retail property market of Luohu District solidifies; and (v) the Properties are only part of the Group's portfolio, we concur with the Directors that the Disposal Transactions 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.

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## LETTER FROM GRAM CAPITAL

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### 2. Principal terms of the Disposal Agreements

#### *(I) The Win Kings Disposal Agreement*

On 5 December 2016, Paul Y. as vendor, the Company as vendor guarantor, Creative Dragon Ventures as purchaser and Ms. Chan, Hoi-wan as purchaser guarantor entered into the Win Kings Disposal Agreement relating to, among others, the sale and purchase of the Win Kings Sale Share and the Win Kings Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Win Kings Bank Loan Document(s)).

As at 15 November 2016, the amount of the Win Kings Sale Loan was approximately HK\$512.2 million. In consideration for the sale or procurement of the sale of the Win Kings Sale Share and the assignment or procurement of the assignment of the Win Kings Sale Loan by Paul Y. to Creative Dragon Ventures or its nominee(s), Creative Dragon Ventures further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Win Kings Assumed Debt (if any) upon completion of the Win Kings Disposal Agreement. As at 15 November 2016, the amount of the Win Kings Assumed Debt was nil.

#### *The Win Kings Consideration*

The Win Kings Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$1,050 million (the “**Win Kings Cap**”)):

- (a) the consolidated net asset value or liability of the Win Kings Group as shown in the Win Kings Completion Accounts (for the purpose of ascertaining such consolidated net asset value or liability, Creative Dragon Ventures acknowledged and accepted that the Hong Kong Property and the development of the Hong Kong Property altogether shall have a combined value of HK\$910 million (the “**HK Property Agreed Value**”) in the Win Kings Completion Accounts and that no works in progress in respect of the development of the Hong Kong Property shall be recognised as any assets in the Win Kings Completion Accounts as the HK Property Agreed Value of HK\$910 million was agreed on the basis that the development of the Hong Kong Property had been completed); and
- (b) the aggregate face amount of the Win Kings Sale Loan, less the aggregate face amount of the Win Kings Assumed Debt and the Estimated Outstanding Development Costs.

At completion of the Win Kings Disposal Agreement, Creative Dragon Ventures shall pay to Paul Y. the Win Kings Provisional Consideration. The difference between the Win Kings Consideration and the Win Kings Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Win Kings Completion Accounts have been delivered to Creative Dragon Ventures.

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## LETTER FROM GRAM CAPITAL

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Since certain time is required for preparation of the Win Kings Completion Accounts, we concur with the Directors that the payment terms above are acceptable.

Based on the unaudited consolidated accounts of the Win Kings Group and the information provided by the Company, (i) the unaudited consolidated net asset value of the Win Kings Group would be approximately HK\$287.0 million (having adjusted for the HK Property Agreed Value of HK\$910 million) as at 15 November 2016; (ii) the aggregate face amount of the Win Kings Sale Loan was approximately HK\$512.2 million as at 15 November 2016; (iii) the aggregate face amount of the Win Kings Assumed Debt was nil as at 15 November 2016; and (iv) the Estimated Outstanding Development Costs was approximately HK\$22.4 million as at 15 November 2016. Accordingly, the Win Kings Consideration would be approximately HK\$776.8 million.

In light of that the Win Kings Consideration was determined with reference to the HK Property Agreed Value, which represents a premium of approximately 0.55% over the gross development value of the Hong Kong Property as at 15 November 2016 (the “**Win Kings Valuation**”) as evaluated by the Independent Property Valuer, the remaining assets and liabilities of the Win Kings Group as well as the aggregate amount of the Win Kings Sale Loan less the aggregate amount of the Win Kings Assumed Debt and the Estimated Outstanding Development Costs were set at their face value on a dollar-to-dollar basis, we are of the view that the aforesaid formula for calculating the Win Kings Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

As advised by the Directors, the parties to the Win Kings Disposal Agreement agreed to cap the Win Kings Consideration at HK\$1,050 million as a result of negotiation to ensure commercial certainty. The Win Kings Cap was determined based on the projected consolidated net asset value of the Win Kings Group in the Win Kings Completion Accounts and the HK Property Agreed Value, together with a reasonable buffer. For our due diligence purpose, we have discussed with the Directors regarding the aforesaid projection and the amount of buffer. Based on our discussion, we understood the basis and factors considered in the aforesaid projection.

We also noted that (i) there were similar cap provisions under the Windsor Transactions and other disposal transactions (in relation to properties); and (ii) the actual considerations of the aforesaid transactions did not exceed their respective caps. In addition, we have also searched for other sale and purchase transactions conducted by Hong Kong listed companies in 2015 and 2016 which (i) did not fix the consideration on the date of relevant agreement; or (ii) had adjustable consideration. Based on our observation, certain of the aforesaid transactions involved a consideration cap/maximum consideration. Given the above, we are of the view that the Win Kings Cap is not exceptional to the market practices and it is justifiable.

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## LETTER FROM GRAM CAPITAL

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### *The Win Kings Valuation*

To further assess the fairness and reasonableness of the Win Kings Consideration, we have reviewed the Valuation Report and discussed with the Independent Property Valuer regarding the methodology adopted and the basis and assumptions used in arriving at the Win Kings Valuation. In the course of our discussion, we noted that the Independent Property Valuer carried out an inspection of the Hong Kong Property in December 2016. Based on the Valuation Report, the Independent Property Valuer has adopted direct comparison method for the Win Kings Valuation.

Upon our enquiry, the Independent Property Valuer further confirmed us the followings:

- (i) the cost approach was considered to be inappropriate as it only reflects the value of the subject assets at cost;
- (ii) the income approach was considered to be inappropriate as the Hong Kong Property is categorised as development property held for sale which is intended to be sold instead of leasing out for rental income upon completion of construction; and
- (iii) the direct comparison method is commonly adopted for the assessment of the gross development value of properties that are under construction and is also consistent with normal market practice.

Accordingly, we have no doubt on the valuation methodology (i.e. direct comparison method) and consider that the Win Kings Valuation is sufficient for us to support our assessment on the basis for calculation of the Win Kings Consideration and we have not considered other valuation methodology in this regard.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the Independent Property Valuer with the Company; (ii) the Independent Property Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Property Valuer for conducting the Win Kings Valuation. From the mandate letter and other relevant information provided by the Independent Property Valuer and based on our interview with it, we are satisfied with the terms of engagement of the Independent Property Valuer as well as its qualification and experience for preparation of the Valuation Report. The Independent Property Valuer has also confirmed that it is independent to the Group, the Win Kings Group, Creative Dragon Ventures and Ms. Chan, Hoi-wan.



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## LETTER FROM GRAM CAPITAL

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We understand from the Independent Property Valuer that under the direct comparison method, the Independent Property Valuer made reference to comparable sales evidence as available in the relevant market when preparing the Win Kings Valuation. We have also reviewed the details of the comparable sales transactions (the “**Comparable Transactions**”) adopted for the Win Kings Valuation such as date of transaction, location, consideration, size of the comparable property, and their selection criteria.

Further details of the basis and assumptions of the Win Kings Valuation are included in the Valuation Report as contained in Appendix II to the Circular. During our discussion with the Independent Property Valuer, we have not identified any major factor which causes us to doubt the fairness and reasonableness of the principal basis, assumptions and the Comparable Transactions adopted for or the information used in the Win Kings Valuation. Nevertheless, Shareholders should note that valuation of assets or properties usually involves assumptions and therefore the Win Kings Valuation may or may not reflect the true market value of the Hong Kong Property accurately.

In view of the above basis for calculation of the Win Kings Consideration (including the Win Kings Valuation), we consider that the Win Kings Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

### *The Win Kings Deposits*

Pursuant to the Win Kings Disposal Agreement, Creative Dragon Ventures shall pay to Paul Y. the Win Kings Deposits, which will be applied towards settlement of the Win Kings Provisional Consideration at completion of the Win Kings Disposal Agreement. Ms. Chan, Hoi-wan has agreed to procure Global King and JLLHIL to undertake to the Company and Paul Y. that they shall (as agents and on behalf of Creative Dragon Ventures) pay or procure to pay to the Company (as agent of Paul Y.) the aggregate amount of such Win Kings Special Dividend payable to them or their respective nominee(s) or custodian(s) by the Company (in the case of Global King, excluding the Win Kings Excluded Special Dividend) as payment of the Win Kings Deposits (or any part thereof).

Creative Dragon Ventures may elect to settle the Win Kings Provisional Consideration (or any part thereof) by procuring certain Shareholders to apply their Win Kings Dividend Entitlements, subject to completion of the Win Kings Disposal Agreement, towards the payment of the Win Kings Provisional Consideration and the Company will be authorised and instructed to pay such Win Kings Dividend Entitlements to Paul Y., in lieu of such Shareholders, to settle the Win Kings Provisional Consideration to the extent of the aggregate amount of such Win Kings Dividend Entitlements.



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## LETTER FROM GRAM CAPITAL

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### *Undertakings and indemnity*

Prior to completion of the Win Kings Disposal Agreement, each of Creative Dragon Ventures 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 Win Kings CE Guarantee following or upon completion of the Win Kings Disposal Agreement to replace the Win Kings CE Guarantee.

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.

### **(II) *The Pinecrest Disposal Agreement***

On 5 December 2016, New Silver as vendor, the Company as vendor guarantor, Strong Point Ventures as purchaser and Mr. Lau, Ming-wai as purchaser guarantor entered into the Pinecrest Disposal Agreement relating to, among others, the sale and purchase of the Pinecrest Sale Share and the Pinecrest Sale Loan free from all Encumbrances.

As at 30 September 2016, the amount of the Pinecrest Sale Loan was nil. In consideration for the sale or procurement of the sale of the Pinecrest Sale Share and the assignment or procurement of the assignment of the Pinecrest Sale Loan by New Silver to Strong Point Ventures or its nominee(s), Strong Point Ventures further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Pinecrest Assumed Debt (if any) upon completion of the Pinecrest Disposal Agreement. As at 30 September 2016, the amount of the Pinecrest Assumed Debt was approximately HK\$237.4 million.

### *The Pinecrest Consideration*

The Pinecrest Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$500 million (the “**Pinecrest Cap**”)):

- (a) the consolidated net asset value or liability of the Pinecrest Group as shown in the Pinecrest Completion Accounts (for the purpose of ascertaining such consolidated net asset value or liability, Strong Point Ventures acknowledged and accepted that the PRC Properties shall have a value of HK\$360 million (the “**PRC Properties Agreed Value**”) in the Pinecrest Completion Accounts); and
- (b) the aggregate face amount of the Pinecrest Sale Loan, less the aggregate face amount of the Pinecrest Assumed Debt.

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## LETTER FROM GRAM CAPITAL

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At completion of the Pinecrest Disposal Agreement, Strong Point Ventures shall pay to New Silver the Pinecrest Provisional Consideration. The difference between the Pinecrest Consideration and the Pinecrest Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Pinecrest Completion Accounts have been delivered to Strong Point Ventures.

Since certain time is required for preparation of the Pinecrest Completion Accounts, we concur with the Directors that the payment terms above are acceptable.

Based on the unaudited consolidated accounts of the Pinecrest Group and the information provided by the Company, (i) the unaudited consolidated net asset value of the Pinecrest Group (excluding the carrying amounts of the deferred tax assets and liabilities attributable to the PRC Properties) would be approximately HK\$637.2 million (having adjusted for the PRC Properties Agreed Value of HK\$360 million) as at 30 September 2016; (ii) the aggregate face amount of the Pinecrest Sale Loan was nil as at 30 September 2016; and (iii) the aggregate face amount of the Pinecrest Assumed Debt was approximately HK\$237.4 million as at 30 September 2016. Accordingly, the Pinecrest Consideration would be approximately HK\$399.8 million.

In light of that the Pinecrest Consideration was determined with reference to the PRC Properties Agreed Value, which represents a premium of approximately 2.01% over the market value of the PRC Properties as at 15 November 2016 (the “**Pinecrest Valuation**”) as evaluated by the Independent Property Valuer and the remaining assets and liabilities of the Pinecrest Group (excluding the deferred tax assets and liabilities attributable to the PRC Properties) as well as the aggregate amount of the Pinecrest Sale Loan less the aggregate amount of the Pinecrest Assumed Debt were set at their face value on a dollar-to-dollar basis, we are of the view that the aforesaid formula for calculating the Pinecrest Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

As advised by the Directors, the parties to the Pinecrest Disposal Agreement agreed to cap the Pinecrest Consideration at HK\$500 million as a result of negotiation to ensure commercial certainty. The Pinecrest Cap was determined based on the projected consolidated net asset value of the Pinecrest Group (excluding the carrying amounts of the deferred tax assets and liabilities attributable to the PRC Properties) in the Pinecrest Completion Accounts and the PRC Properties Agreed Value, together with a reasonable buffer. For our due diligence purpose, we have discussed with the Directors regarding the aforesaid projection and the amount of buffer. Based on our discussion, we understood the basis and factors considered in the aforesaid projection.

We also noted that (i) there were similar cap provisions under the Windsor Transactions and other disposal transactions (in relation to properties); and (ii) the actual considerations of the aforesaid transactions did not exceed their respective caps. In addition, we have also searched for other sale and purchase transactions conducted by Hong Kong listed companies in 2015 and 2016 which (i) did not fix the consideration on the date of relevant agreement; or (ii) had adjustable consideration. Based on our observation, certain of the aforesaid transactions involved a consideration cap/maximum consideration. Based on the above, we are of the view that the Pinecrest Cap is not exceptional to the market practices and it is justifiable.

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## LETTER FROM GRAM CAPITAL

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### *The Pinecrest Valuation*

To further assess the fairness and reasonableness of the Pinecrest Consideration, we have reviewed the Valuation Report and discussed with the Independent Property Valuer regarding the methodology adopted and the basis and assumptions used in arriving at the Pinecrest Valuation. In the course of our discussion, we noted that the Independent Property Valuer carried out an inspection of the PRC Properties in December 2016. Based on the Valuation Report, the Independent Property Valuer has adopted investment method for the Pinecrest Valuation.

Upon our enquiry, the Independent Property Valuer further confirmed us followings:

- (i) the cost approach was considered to be inappropriate as it only reflects the value of the subject assets at cost;
- (ii) as the PRC Properties are fully let out as at the date of valuation with various expiring dates and the comparable sales transactions (if any) may involve subject properties with different rental terms or not being let out, the adoption of direct comparison method would involve numerous adjustments and hence be considered inappropriate;
- (iii) the Independent Property Valuer adopted investment method instead of direct comparison method for the Pinecrest Valuation given that (a) the PRC Properties are held for investment by the Group; and (b) it is reasonable to adopt the investment method by capitalising the rentals at market derived yield with due allowance to the reversionary income potential of the PRC Properties which are fully let out as at the date of valuation; and
- (iv) the investment method is commonly adopted for valuation of properties that are held for investment and is also consistent with normal market practice.

Accordingly, we have no doubt on the valuation methodology (i.e. investment method) and consider that the Pinecrest Valuation is sufficient for us to support our assessment on the basis for calculation of the Pinecrest Consideration and we have not considered other valuation methodology in this regard.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the Independent Property Valuer with the Company; (ii) the Independent Property Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Property Valuer for conducting the Pinecrest Valuation (including how the Independent Property Valuer capitalised the rentals at market derived yield with due allowance to the reversionary income potential of the PRC Properties and the market data applied thereto). From the mandate letter and other relevant information provided by the Independent Property Valuer and based on our interview with it, we are satisfied with the terms of engagement of the Independent Property Valuer as well as its qualification and experience for preparation of the Valuation Report. The Independent Property Valuer has also confirmed that it is independent to the Group, the Pinecrest Group, Strong Point Ventures and Mr. Lau, Ming-wai.

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## LETTER FROM GRAM CAPITAL

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Further details of the basis and assumptions of the Pinecrest Valuation are included in the Valuation Report as contained in Appendix II to the Circular. During our discussion with the Independent Property Valuer, we have not identified any major factor which causes us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the Pinecrest Valuation. Nevertheless, Shareholders should note that valuation of assets or properties usually involves assumptions and therefore the Pinecrest Valuation may or may not reflect the true market value of the PRC Properties accurately.

In view of the above basis for calculation of the Pinecrest Consideration (including the Pinecrest Valuation), we consider that the Pinecrest Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

### *The Pinecrest Deposits*

Pursuant to the Pinecrest Disposal Agreement, Strong Point Ventures shall pay to New Silver the Pinecrest Deposits, which will be applied towards settlement of the Pinecrest Provisional Consideration at completion of the Pinecrest Disposal Agreement. Mr. Lau, Ming-wai has agreed to procure Global King and JLLHIL to undertake to the Company and New Silver that they shall (as agents and on behalf of Strong Point Ventures) pay or procure to pay to the Company (as agent of New Silver) the aggregate amount of such Pinecrest Special Dividend payable to them or their respective nominee(s) or custodian(s) by the Company (in the case of Global King, excluding the Pinecrest Excluded Special Dividend) as payment of the Pinecrest Deposits (or any part thereof).

Strong Point Ventures may elect to settle the Pinecrest Provisional Consideration (or any part thereof) by procuring certain Shareholders to apply their Pinecrest Dividend Entitlements, subject to completion of the Pinecrest Disposal Agreement, towards the payment of the Pinecrest Provisional Consideration and the Company will be authorised and instructed to pay such Pinecrest Dividend Entitlements to New Silver, in lieu of such Shareholders, to settle the Pinecrest Provisional Consideration to the extent of the aggregate amount of such Pinecrest Dividend Entitlements.

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## LETTER FROM GRAM CAPITAL

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### 3. Possible financial effects of the Disposal Transactions

As advised by the Directors, after completion of the Disposal Agreements, the Win Kings Group and the Pinecrest Group will cease to be subsidiaries of the Company, and their consolidated financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

As disclosed in the relevant disclosure in the section headed “C. EFFECT OF THE DISPOSAL TRANSACTIONS” of the Board Letter, the Group expects to record a gain of approximately HK\$25.0 million from the Win Kings Disposal Transaction and the actual gain or loss to be recorded might be different as the above estimate is based on (i) the Win Kings Consideration will not exceed the Win Kings Cap of HK\$1,050 million; (ii) the carrying amount of the Hong Kong Property in the consolidated financial statements of the Group as at 15 November 2016; and (iii) the Estimated Outstanding Development Costs as at 15 November 2016, which might be different from those as at the Win Kings Completion Date.

Besides, the Group expects to record a gain of approximately HK\$80.7 million from the Pinecrest Disposal Transaction and the actual gain or loss to be recorded might be different as the above estimate is based on (i) the Pinecrest Consideration will not exceed the Pinecrest Cap of HK\$500 million; (ii) the unaudited consolidated net asset value of the Pinecrest Group as at 30 September 2016 after adjusting the carrying amounts of the PRC Properties to the Pinecrest Valuation and related deferred tax; (iii) the Pinecrest Sale Loan less the Pinecrest Assumed Debt as at 30 September 2016; and (iv) translation reserve of the Pinecrest Group as at 30 September 2016, which might be different from those as at the Pinecrest Completion Date.

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 Agreements.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal Agreements and the Disposal Transactions are fair and reasonable; (ii) the Disposal Agreements and the Disposal Transactions 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 resolutions to be proposed at the SGM to approve the Disposal Agreements and the Disposal Transactions, and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

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

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

## 1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 are disclosed in the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015 and the interim report of the Company for the six months ended 30 June 2016 respectively. These annual and interim reports 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 2013 published on 14 April 2014 (pages 79 – 241);
- 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
- interim report of the Company for the six months ended 30 June 2016 published on 27 September 2016 (pages 3 – 62).

## 2. INDEBTEDNESS BORROWINGS

### Borrowings

As at the close of business on 30 November 2016, 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:

	<b>30 November 2016</b>
	<i>HK\$'000</i>
Secured bank loans	4,804,631
Other secured loans	9,806,439
Amounts due to associates and investee companies	102,315
Amount due to a non-controlling shareholder	74,177
	<hr/>
	14,787,562
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The bank loans and the other loans were secured by the Group's investment properties, stock of properties, investments held-for-trading, bonds, listed equity investment measured at fair value through other comprehensive income, pledged deposits and interests in certain subsidiaries of the Company.

**Guarantee**

As at 30 November 2016, 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:

**30 November 2016**

*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>15,000</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 30 November 2016, 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 2015, being the date to which the latest published audited accounts of the Group were made up, up to and including the Latest Practicable Date, except:-

- (i) as disclosed in the 2016 interim report of the Company published on 27 September 2016, following the completion of the disposal of a subsidiary holding MassMutual Tower (now known as China Evergrande Centre) in Hong Kong and the disposal of a subsidiary holding Evergo Tower in Shanghai, the PRC on 15 January 2016 and 22 June 2016 respectively, it is expected that the Group's rental revenue and net rental income for the year ending 31 December 2016 will record a sizable decrease when compared to those for the year ended 31 December 2015;
- (ii) as disclosed in the announcements of the Company published on 1 September 2016 and 5 October 2016 in respect of the completion of the Windsor Agreements, following the completion of the disposal of Jumbo Grace Limited, the rental revenue and net rental income of the relevant subsidiary will no longer be included in the consolidated statement of comprehensive income of the Group. It is expected that the Group's rental revenue and net rental income for the year ending 31 December 2016 will record a sizable decrease when compared to those for the year ended 31 December 2015;
- (iii) as disclosed in the 2016 interim report of the Company published on 27 September 2016, during the six months ended 30 June 2016, the Group acquired 577,180,500 H shares of Shengjing Bank Co., Ltd. (Stock Code: 2066) at a consideration of approximately HK\$6,926.2 million and an unrealised fair value loss of approximately HK\$2,314.5 million was recognised in the other comprehensive expenses for the period; and

- (iv) the payment of special interim dividends of approximately HK\$3,815.2 million, HK\$4,006.0 million and HK\$6,161.6 million on 20 January 2016, 11 August 2016 and 1 September 2016 respectively, which had reduced the working capital, total assets and net assets of the Group when compared to those as at 31 December 2015.

#### **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 Transactions, 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**

In Hong Kong, local economy is currently revealing cautious but slightly optimistic signals combining modest economic growth with low unemployment rate. However, the overall reduction of Mainland China tourists' spending on retail industry together with the recent adjustment on the ad valorem stamp duty for second-home buyers to a flat rate of 15% by the Hong Kong government may intensify the volatility of both retail and residential property markets. In the PRC, the economic prospect remains quite promising. It is believed that with stable political situation and strong central government leadership, the "One Belt and One Road" policy will continue to promote gradual economic growth and sustainable development. The Group will continue to closely monitor market changes and remain agile to adjust its existing property portfolio from time to time and may replenish its land bank when suitable opportunities arrive.

The Group has further expanded its property investment portfolio in the United Kingdom since early this year. Although uncertainty still prevails, the recent GBP slide following the United Kingdom's Brexit referendum may create a lucrative window for foreign investors. The Group will attentively observe the withdrawal progress and capture opportunities by acquiring new potential targets and/or realising existing investment properties on hand.



*The following is the text of a letter and valuation certificates prepared for the purpose of incorporation in this circular received from B.I. Appraisals Limited, an independent property valuer, in connection with its opinion of value of the Properties as at 15 November 2016.*

**B. I. Appraisals Limited**  
**保柏國際評估有限公司****Registered Professional Surveyors, Valuers & Property Consultants**Unit 1301, 13/F, Tung Wai Commercial Building,  
Nos.109-111 Gloucester Road, Wan Chai, Hong Kong  
Tel: (852) 2127 7762 Fax: (852) 2137 9876  
Email: info@biappraisals.com  
Website: www.bigrouphchina.com

28 December 2016

Dear Sirs,

The Board of Directors  
Chinese Estates Holdings Limited  
26th Floor, China Evergrande Centre  
38 Gloucester Road, Wan Chai  
Hong Kong

Dear Sirs,

- Re: (1) The proposed development at No. 12 Shiu Fai Terrace, Mid-Levels East, The Hong Kong Special Administrative Region (“Hong Kong”); and**  
**(2) Seventy-nine retail shops on 1st Floor, Lowu Commercial Plaza, Jianshe Road, Luohu District, Shenzhen City, Guangdong Province, The People’s Republic of China (“PRC”).**

In accordance with the instructions from Chinese Estates Holdings Limited (hereinafter referred to as the “Company”) for us to value the captioned properties (hereinafter referred to as the “Properties”) which are held by the Company and/or its subsidiaries (hereinafter referred to as the “Group”) in Hong Kong (hereinafter referred to as “Hong Kong Property”) and in Shenzhen City, Guangdong Province, the PRC (hereinafter referred to as “PRC Properties”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of each of the Properties as at 15 November 2016 (hereinafter referred to as the “Date of Valuation”).

It is our understanding that this valuation document is to be used by the Company for disclosure purpose in relation to the proposed disposal of the Properties (hereinafter referred to as the “Proposed Disposal”). We further understand that our report is to be incorporated in a circular to be issued by the Company in relation to the Proposed Disposal.

This letter, forming part of our valuation report, states the instructions, identifies the properties being valued, explains the basis and methodology of our valuations, and lists out the assumptions and the title investigation we have made in the course of our valuations, as well as the limiting conditions.

**BASIS OF VALUATION**

Our valuation of each of the Properties is our opinion of its market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We are required to value the Hong Kong Property on the basis of its market value as if completed (also known as the gross development value) as at the Date of Valuation and to provide also our opinion of its market value in existing state as at the Date of Valuation for reference. The valuation of the PRC Properties, as instructed, is on existing state basis.

We have valued the Properties on the basis that each of them is considered individually. We have not allowed for any discount for the Properties to be sold to a single party nor taken into account any effect on the values if the Properties are to be offered for sale at the same time as a portfolio.

Our valuations have been carried out in accordance with The HKIS Valuation Standards 2012 Edition issued by The Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**VALUATION APPROACH AND METHODOLOGY**

In valuing the Hong Kong Property, which is held under development by the Group in Hong Kong, we have valued in accordance with the latest development proposal provided to us using the direct comparison method, assuming that the property is capable of being sold as if completed on the Date of Valuation with the benefit of immediate vacant possession, and by making reference to comparable sales evidence as available in the relevant markets. In arriving at its market value in existing state as at the Date of Valuation, we have taken into consideration the outstanding construction costs that will be expended to complete the development.

For the PRC Properties, which is held for investment by the Group in the PRC, we have adopted the Investment Method by taking into account the current rents passing and the reversionary income potential of such property.

**VALUATION ASSUMPTIONS**

Our valuations have been made on the assumption that the Properties are sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement that would serve to affect the values of such properties. In addition, no account has been taken of any option or right of pre-emption concerning or effecting sales of the Properties and no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature that could affect their values.

**TITLE INVESTIGATION**

We have carried out title searches at the Land Registry for the Hong Kong Property. However, we have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. All documents have been used for reference only.

For the PRC Properties, we have been provided by the Company with copies of title documents and a legal opinion dated 22 December 2016 prepared by 奮迅律師事務所 (Fenxun Partners), the Company's legal adviser on the PRC law (hereinafter referred to as the "PRC Legal Adviser"), regarding the title to and the interest in the PRC Properties. We have not inspected the originals of the title documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. All documents and leases have been used for reference only.

In the course of our valuation of the PRC Properties, we have relied on the advice given by the Company and the legal opinion of the PRC Legal Adviser regarding the title to and the interest in such property.

**LIMITING CONDITIONS**

We have inspected the exterior of the Properties in the period from 6 December 2016 to 7 December 2016. In the course of our inspections, we did not note any serious defects. No structural surveys have been made nor have any tests been carried out on any of the building services provided in the Properties. Therefore, we are not able to report whether the Properties are free of rot, infestation or any other structural defects.

We have not carried out site measurements to verify the correctness of the site and floor areas of the Properties but have assumed that the site and floor areas shown on the documents provided to us are correct. Dimensions, measurements and areas included in the valuation certificates attached are based on information contained in the documents provided to us by the Company and are therefore approximations only.

We have relied to a considerable extent on the information provided by the Company and accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, latest development proposals, construction costs data, completion date of buildings, particulars of occupancy, tenancy summary, site and floor areas and all other relevant matters in the identification of the properties in which the Group has valid interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

This report and each part of it is prepared and intended for the exclusive use of the Company for the purpose hereinbefore stated. In accepting this report, the Company expressly agrees not to use or rely upon this report or any part of it for any other purpose without obtaining our prior written consent.

**CURRENCY**

Unless otherwise stated, all monetary amounts stated in the summary of values and valuation certificates attached herewith are in Hong Kong dollars (HK\$). Where necessary, the exchange rate adopted in our valuation of the PRC property is RMB1 = HK\$1.1337 which was approximately the prevailing exchange rate as at the Date of Valuation.

**REMARKS**

We hereby confirm that we have neither present nor prospective interests in the Group, the Properties or the values reported herein.

Our summary of values and valuation certificates are attached.

Yours faithfully,

For and on behalf of

**B.I. APPRAISALS LIMITED**

**William C. K. Sham**

*Registered Professional Surveyor (G.P.)*

*China Real Estate Appraiser*

*MRICS, MHKIS, MCIREA*

*Executive Director*

*Notes:*

- (1) *Mr. William C. K. Sham is a qualified valuer on the approved List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors. Mr. Sham has over 30 years' experience in the valuation of properties in Hong Kong and has over 15 years' experience in the valuation of properties in the PRC and the Asia Pacific regions.*
- (2) *The Properties were inspected by Mr. Ken W. C. Tsang, the Assistant Manager, in the period from 6 December 2016 to 7 December 2016. Mr. Tsang has more than 13 years' experience in the valuation of properties in Hong Kong and the PRC.*

## SUMMARY OF VALUES

<b>Property</b>	<b>Market value as if completed as at 15 November 2016 <i>HK\$</i></b>	<b>Interest attributable to the Group <i>(%)</i></b>	<b>Value attributable to the Group as at 15 November 2016 <i>HK\$</i></b>
1. The proposed development at No. 12 Shiu Fai Terrace, Mid-Levels East, Hong Kong	905,000,000	100	905,000,000
	<b>Market value in existing state as at 15 November 2016 <i>HK\$</i></b>	<b>Interest attributable to the Group <i>(%)</i></b>	<b>Value attributable to the Group as at 15 November 2016 <i>HK\$</i></b>
2. Seventy-nine retail shops on 1st Floor, Lowu Commercial Plaza, Jianshe Road, Luohu District, Shenzhen City, Guangdong Province, the PRC	352,921,000	100	352,921,000

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value as if completed as at 15 November 2016
1. The proposed development at No. 12 Shiu Fai Terrace, Mid-Levels East, Hong Kong  Sections M and X of Inland Lot No. 2302 and the extensions thereto	<p>The property comprises a 15-storey building including 12 storey of residential units and 3 storey of parking spaces being erected on a parcel of land with a registered site area of approximately 1,117.614 sq.m. (12,030 sq.ft.). It is located on the southwestern side of Shiu Fai Terrace in Mid-Levels East of Hong Kong.</p> <p>Upon completion, the property will accommodate 24 flats (with estimated saleable areas ranging from 102.476 sq.m. (1,103 sq.ft.) to 153.578 sq.m. (1,653 sq.ft.) or thereabouts), 25 private car parking spaces (including 1 parking space for the disable), 2 motor-cycle parking spaces and 1 loading/unloading bay.</p> <p>Pursuant to the latest building plans approved by the Building Department on 24 November 2016, the total gross floor area of the proposed development (excluding car parking spaces) is approximately 3,819.295 sq.m. (41,111 sq.ft.).</p> <p>Inland Lot No. 2302 is held under Conditions of Sale No. 1001 for a term of 75 years commencing from 4 October 1920 and renewed for a further term of 75 years.</p> <p>The Government Rent payable for the property is HK\$209,504 per annum.</p>	The proposed development is currently in the final stage of construction. It is expected to obtain the occupation permit and the certificate of compliance for the property in the first and the second quarter of 2017 respectively.	HK\$905,000,000  <i>(See Notes 5 and 6 below)</i>  100% interest attributable to the Group: HK\$905,000,000

*Notes:*

- (1) The registered owner of the property is Stable Castle Limited via an assignment dated 5 December 2006, registered vide Memorial No. 06121200410027.
- (2) The property is subject to the following encumbrances registered in the Land Registry:
  - (a) Modification letter dated 14 July 1964, registered vide Memorial No. UB449692 (Re: Section M of Inland Lot No.2302 and The Extension Thereto);
  - (b) Modification letter dated 23 April 1971, registered vide Memorial No. UB803658 (Re: Section X of Inland Lot No.2302 and The Extension Thereto);
  - (c) Mortgage in favour of Chong Hing Bank Limited dated 11 December 2009, registered vide Memorial No. 09122901480045;
  - (d) Modification letter from The Government of The Hong Kong Special Administrative Region by the District Lands Officer/Hong Kong East dated 20 July 2015, registered vide Memorial No. 15072302770018;
  - (e) Certified copy undertaking letter for balconies and utility platforms from Stable Castle Limited to Buildings Department dated 18 September 2009, registered vide Memorial No. 16112402080013; and
  - (f) Certified copy undertaking letter for wider common corridors and lift lobbies from Stable Castle Limited to Buildings Department dated 18 September 2009, registered vide Memorial No. 16112402080024.
- (3) The property is also subject to and with the benefit of a Deed of Grant of Right of Way dated 31 March 1978 and a Confirmatory Deed dated 14 February 2012 and registered in the Land Registry in the registers of the adjoining land being Section N of Inland Lot No. 2302 and the Extension thereto, Section P of Inland Lot No. 2302 and the Extension thereto, Section O of Inland Lot No. 2302 and the Extension thereto and Section W of Inland Lot No. 2302 and the Extension thereto by Memorials Nos. UB1505294 and 12021702410024 respectively.
- (4) The property lies within an area currently zoned as “Residential (Group C)2” on the Approved Mid-Levels East Outline Zoning Plan No. S/H12/12 gazetted on 17 September 2010.
- (5) We have been advised that the total cost to develop the property is estimated to be approximately HK\$598,400,000 and that the total development cost (including the land costs) that has already been expended as at the Date of Valuation amounted to approximately HK\$576,000,000. The outstanding costs to complete the development was estimated to approximately HK\$22,400,000, which include the estimated outstanding construction costs (including professional fees) of approximately HK\$17,600,000 and the estimated outstanding premium for balcony and utility platform (including administration fee) of approximately HK\$4,800,000.
- (6) The market value of the property in existing state as at the Date of Valuation was reasonably stated at HK\$857,000,000, which was arrived at by taking into consideration the outstanding construction costs.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 15 November 2016
2. Seventy-nine retail shops on 1st Floor, Lowu Commercial Plaza, Jianshe Road, Luohu District, Shenzhen City, Guangdong Province, the PRC (See Note 1 below for details)	<p>Lowu Commercial Plaza (the "Development") is a 5-storey shopping arcade built over a coach station and a taxi station and is directly connected to Shenzhen Train Station by footbridges on 1st floor. The Development was completed in about 1994.</p> <p>The property comprises 79 retail units on 1st floor of the Development with a total gross floor area of approximately 2,732.80 sq.m. (29,416 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 40 years from 1 January 1993 to 31 December 2032.</p>	<p>The property is currently fully let and is subject to various third-party tenancies for terms of 1 year to 3 years with the latest expiring on 14 May 2019 yielding a total monthly rental of approximately RMB2,775,849 (exclusive of management fee).</p>	<p>HK\$352,921,000 (equivalent to approximately RMB311,300,000)</p> <p>100% interest attributable to the Group: HK\$352,921,000 (equivalent to approximately RMB311,300,000)</p>

## Notes:

- (1) Pursuant to 79 sets of Certificate of Real Estate Ownership (房地產證) all issued by Shenzhen Municipal People's Government on 5 April 1995, the ownerships of the property with a total gross floor area of approximately 2,732.80 sq.m. is vested respectively in 79 indirect wholly owned subsidiaries of the Company. The land use rights of the property, as stated in the said certificates, are for a term of 40 years commencing from 1 January 1993 to 31 December 2032 for commercial use. Details of the said certificates are summarized as below:

Shop Unit No.	Gross floor area (sq.m.)	Name of Owner	Certificate No.
1001	41.78	Win Victory Development Limited	Shen Fang Di Zi No. 0215620
1002	29.10	Excellent Dragon Investment Limited	Shen Fang Di Zi No. 0215642
1003	48.81	Mass Champion Development Limited	Shen Fang Di Zi No. 0215643
1004	25.96	Universal Crown Investment Limited	Shen Fang Di Zi No. 0215644
1005	25.75	Million Pacific Development Limited	Shen Fang Di Zi No. 0215645
1006	24.67	Magic Time Investment Limited	Shen Fang Di Zi No. 0215621
1007	23.45	Jade Ocean Investment Limited	Shen Fang Di Zi No. 0215622
1008	24.14	Success Century Investment Limited	Shen Fang Di Zi No. 0215623
1009	36.18	Penton Development Limited	Shen Fang Di Zi No. 0215624
1010	35.47	Cheeryork Development Limited	Shen Fang Di Zi No. 0215646
1011	38.13	Best Field Limited	Shen Fang Di Zi No. 0215647



Shop Unit No.	Gross floor area (sq.m.)	Name of Owner	Certificate No.
1012	37.42	Great Fame Investment Limited	Shen Fang Di Zi No. 0215648
1013	39.11	Wintrade Investment Limited	Shen Fang Di Zi No. 0215649
1014	38.37	Sky Hall Investment Limited	Shen Fang Di Zi No. 0215650
1015	38.13	Heson Development Limited	Shen Fang Di Zi No. 0215651
1016	37.42	Rock Top Limited	Shen Fang Di Zi No. 0215641
1017	38.13	Beverly Investments Limited	Shen Fang Di Zi No. 0215652
1018	37.42	Gafield Limited	Shen Fang Di Zi No. 0215653
1019	25.48	Winsilver Development Limited	Shen Fang Di Zi No. 0215654
1020	22.92	Silvereed Limited	Shen Fang Di Zi No. 0215655
1021	23.57	Honour Asset Development Limited	Shen Fang Di Zi No. 0215656
1022	26.77	Profit Island International Limited	Shen Fang Di Zi No. 0215657
1023	26.86	Target Sky Development Limited	Shen Fang Di Zi No. 0215658
1024	42.01	Crown Rise Development Limited	Shen Fang Di Zi No. 0215659
1025	29.61	Strong Earth Limited	Shen Fang Di Zi No. 0215662
1026	48.81	Regent Victory Development Limited	Shen Fang Di Zi No. 0215686
1027	48.23	Harbour Earth Investment Limited	Shen Fang Di Zi No. 0215691
1044	16.43	Power Group Limited	Shen Fang Di Zi No. 0215663
1045	47.41	Best Universal Development Limited	Shen Fang Di Zi No. 0215664
1047	49.75	Wifa Development Limited	Shen Fang Di Zi No. 0215694
1048	45.07	Dynamic South Development Limited	Shen Fang Di Zi No. 0215665
1049	43.58	Mutual Sun Development Limited	Shen Fang Di Zi No. 0215666
1050	32.46	Express Profit Investment Limited	Shen Fang Di Zi No. 0215625
1051	16.43	Country Charm Investment Limited	Shen Fang Di Zi No. 0215626
1052	23.82	Mutual Link Investments Limited	Shen Fang Di Zi No. 0215627
1053	23.82	Charter Bright Development Limited	Shen Fang Di Zi No. 0215628
1054	45.87	King Eagle Development Limited	Shen Fang Di Zi No. 0215629

Shop Unit No.	Gross floor area (sq.m.)	Name of Owner	Certificate No.
1055	45.52	Hotlink Development Limited	Shen Fang Di Zi No. 0215630
1056	43.34	Summer Breeze Limited	Shen Fang Di Zi No. 0215631
1057	46.11	Up Build Investments Limited	Shen Fang Di Zi No. 0215632
1059	50.26	Joyful Key Investments Limited	Shen Fang Di Zi No. 0215633
1060	50.45	Leading Edge Development Limited	Shen Fang Di Zi No. 0215634
1061	52.85	Royway Investment Limited	Shen Fang Di Zi No. 0215635
1062	23.21	Magic Point Investments Limited	Shen Fang Di Zi No. 0215636
1063	40.75	Uptop Development Limited	Shen Fang Di Zi No. 0215637
1064	40.22	Double Classic Investment Limited	Shen Fang Di Zi No. 0215638
1065	18.57	Giant Wing Investments Limited	Shen Fang Di Zi No. 0215639
1066	32.53	Kinrich Investment Limited	Shen Fang Di Zi No. 0215640
1067	29.07	Union South Development Limited	Shen Fang Di Zi No. 0215660
1068	16.43	United Dragon Investments Limited	Shen Fang Di Zi No. 0215661
1069	48.04	Power Zone Investments Limited	Shen Fang Di Zi No. 0215687
1070	56.14	Crystal Choice Investments Limited	Shen Fang Di Zi No. 0215689
1071	23.66	City Treasure Investments Limited	Shen Fang Di Zi No. 0215688
1072	49.91	Victory Wise Development Limited	Shen Fang Di Zi No. 0215690
1084	39.87	Million Spectrum Investment Limited	Shen Fang Di Zi No. 0215692
1085	37.40	Wanton Development Limited	Shen Fang Di Zi No. 0215693
1086	77.28	Happy King Limited	Shen Fang Di Zi No. 0215685
1088	39.87	Brilliant Jade Development Limited	Shen Fang Di Zi No. 0215695
1089	37.40	Kingdom Glory Investments Limited	Shen Fang Di Zi No. 0215698
1092	28.85	Win All Investments Limited	Shen Fang Di Zi No. 0215697
1093	25.37	Champion Element Investment Limited	Shen Fang Di Zi No. 0215696
1094	24.40	Rich Dynasty Investments Limited	Shen Fang Di Zi No. 0215667
1095	47.72	West Score Investment Limited	Shen Fang Di Zi No. 0215684

Shop Unit No.	Gross floor area (sq.m.)	Name of Owner	Certificate No.
1096	47.42	Grand Long Investment Limited	Shen Fang Di Zi No. 0215668
1097	47.95	Sea Mind Investments Limited	Shen Fang Di Zi No. 0215683
1098	48.09	Group Power Limited	Shen Fang Di Zi No. 0215682
1099	24.64	Asia Empire Limited	Shen Fang Di Zi No. 0215669
1100	25.37	Cheery Target Limited	Shen Fang Di Zi No. 0215681
1101	27.35	Double Dollars Investments Limited	Shen Fang Di Zi No. 0215680
1102	24.68	Win Mass Development Limited	Shen Fang Di Zi No. 0215670
1103	41.68	Queen Eagle Development Limited	Shen Fang Di Zi No. 0215679
1104	29.42	Hogo Development Limited	Shen Fang Di Zi No. 0215678
1105	48.81	Silver Legend Investment Limited	Shen Fang Di Zi No. 0215671
1112	8.88	Win Dynasty Limited	Shen Fang Di Zi No. 0215677
1113	8.88	Topspeed Development Limited	Shen Fang Di Zi No. 0215676
1114	8.88	Fairank Development Limited	Shen Fang Di Zi No. 0215672
1115	8.88	Mega World Development Limited	Shen Fang Di Zi No. 0215675
1116	28.42	Ocean Charm Development Limited	Shen Fang Di Zi No. 0215673
1117	19.89	Oriental Win Investment Limited	Shen Fang Di Zi No. 0215674

(2) The opinion of the PRC Legal Adviser is summarized as follows:

- (a) The subsidiaries of the Company are in possession of the proper legal titles to the building ownership together with the corresponding land use rights of the respective shop units of the property and are entitled to transfer the respective shop units in accordance with the PRC law.
- (b) The respective shop units are leased to third parties and the tenancies (except that for Shop Unit No. 1022, which was terminated on 8 December 2016 due to the default of the tenant in paying rent) are legally valid and are mutually binding to the parties thereof.
- (c) The property is not subject to any mortgage, seizure or other third party rights, except for the tenancies.

(3) The status of the title and grant of major approvals and licences in accordance with the information provided by the Company and the aforesaid legal opinion are as follows:

Certificate of Real Estate Ownership

Obtained

## 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. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executive of the Company

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*

##### *The Company*

Name of Director	Number of Shares Held	Note	Capacity	Percentage of Issued Share Capital
Lau, Ming-wai	1,430,700,768	*	Beneficiary of trust	74.99%

*Note:*

- \* These Shares were indirectly owned by a discretionary trust of which Mr. Lau, Ming-wai was an eligible beneficiary of that trust.

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.

**(b) Interests of substantial shareholders**

So far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, persons other than a Director or chief executive of the Company who had interests or short positions in the shares or 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, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or held any option in respect of such capital were as follows:

***Long Positions***

<b>Name of Substantial Shareholders</b>	<b>Number of Shares Held</b>	<b>Notes</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
Mr. J. Lau	1,430,700,768	^	Founder and beneficiary of trust and interest of children under 18 and spouse	74.99%
Ms. Chan, Hoi-wan	1,430,700,768	@	Beneficiary of trust and interest of children under 18 and spouse	74.99%
Alto Trust Limited	1,430,700,768	#	Trustee and interest in controlled corporation	74.99%
Solar Bright Ltd.	1,430,700,768	#	Beneficiary of a trust and interest in controlled corporation	74.99%
Global King	1,199,715,948	#	Trustee	62.89%
JLLHIL	230,984,820	#	Beneficial owner	12.10%

***Notes:***

^ These Shares were indirectly owned by a discretionary trust of which Mr. J. Lau was the founder. Mr. J. Lau and his certain other family members were eligible beneficiaries of that trust.

@ These Shares were indirectly owned by a discretionary trust of which Ms. Chan, Hoi-wan and her family members were eligible beneficiaries and/or founder of that trust.

- # Alto Trust Limited as trustee of a discretionary trust held the entire issued share capital of Solar Bright Ltd. and therefore was regarded as interested in the same parcel of Shares held by Solar Bright Ltd.. Solar Bright Ltd. held the entire issued share capital of Global King and all issued units in a unit trust of which Global King was the trustee and therefore was regarded as interested in the same parcel of Shares held by Global King as trustee of the unit trust. Solar Bright Ltd. also held the entire issued share capital of JLLHIL and therefore was also regarded as interested in the same parcel of Shares held by JLLHIL. As such, the 1,430,700,768 Shares in which Solar Bright Ltd. was deemed to be interested represented the aggregate of the 1,199,715,948 Shares and 230,984,820 Shares held by Global King and JLLHIL respectively, which was referred to in the interests of Mr. Lau, Ming-wai as disclosed under “Interests of Directors and chief executive of the Company” above.

Save as disclosed above, so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executive of the Company had any interests or short positions in the shares or 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, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or held any option in respect of such capital.

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 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 (wholly owned by Mr. J. Lau indirectly) and Mr. J. Lau 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 China Entertainment and Land Investment Company, Limited (a direct wholly-owned subsidiary of the Company), the Company, Magic Square Limited (wholly owned by Mr. J. Lau indirectly) and Mr. J. Lau 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 Win Kings Disposal Agreement; and
- (h) the Pinecrest Disposal Agreement.



**6. INTEREST IN ASSETS OR CONTRACTS**

- (a) On 21 December 2015, Conduit Road Development Limited (a subsidiary owned as to 70% by the Company) accepted a tender for the purchase of a property at Flat A, 11th Floor, 55 Conduit Road, No. 55 Conduit Road, Hong Kong (with a saleable area of 2,758 square feet) and car parking space No. P3 at the purchase price of HK\$124,118,000 before cash rebate submitted by Ms. Amy Lau, Yuk-wai, a non-executive Director. A formal sale and purchase agreement was entered into on 29 December 2015 and completion took place on 5 April 2016.
- (b) Save for the Disposal Agreements and as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 December 2015, being the date to which the latest published audited financial statements of the Group 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.
- (c) 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 BUSINESS**

As at the Latest Practicable Date, Mr. Lau, Ming-wai had personal interests in private companies engaged in property investment businesses and securities investment businesses. As such, he was 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 EXPERTS**

The following is the qualification of the experts who have given their opinions or advice which are contained in this circular:–

<b>Name</b>	<b>Qualification</b>
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
B.I. Appraisals Limited	An independent professional property valuer
Fenxun Partners	PRC legal adviser

As at the Latest Practicable Date, each of the above experts:–

- (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 2015, being the date to which the latest published audited financial statements of the Group 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 2013, 2014 and 2015 and the interim report of the Company for the six months ended 30 June 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 property valuation report from the Independent Property Valuer in respect of the valuation of the Properties, the text of which is set out in Appendix II to this circular;
- (g) the written consent of the experts as referred to in the paragraph headed “Qualification and Consent of Experts” in this appendix; and
- (h) this circular.

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## NOTICE OF SGM

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## CHINESE ESTATES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 127)**

### NOTICE OF 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 Friday, 13 January 2017 at 10:00 a.m. for the purpose of considering and, if thought fit, with or without amendments, passing the following ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT**

the terms and conditions, and the entering into, of 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 and Ms. Chan, Hoi-wan relating to, among others, the sale and purchase of the entire issued share capital of Win Kings Holding Ltd. (the “**Win Kings Disposal Agreement**”) (a copy of the Win Kings 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 Win Kings 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 Win Kings 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.”

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## NOTICE OF SGM

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2. **“THAT**

the terms and conditions, and the entering into, of 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 and Mr. Lau, Ming-wai relating to, among others, the sale and purchase of the entire issued share capital of Pinecrest International Limited (the **“Pinecrest Disposal Agreement”**) (a copy of the Pinecrest Disposal Agreement has been produced to the Meeting marked “B” 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 Pinecrest 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 Pinecrest 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, 28 December 2016

*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

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## NOTICE OF SGM

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*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. Resolutions 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, 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.