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

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

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CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

MAJOR AND CONNECTED 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**



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 11 to 29 of this circular. A letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-15 of this circular.

A notice convening the SGM to be held at Falcon Room, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Tuesday, 2 February 2016 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. If you are not able to attend the meeting 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.

15 January 2016

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 23 December 2015 for the Disposal Agreements and the Disposal Transactions;
“Asian East SP Agreement”	the sale and purchase agreement dated 12 December 2014 entered into among Rich Lucky Limited, the Company, Market Victory Limited and Mr. Lau relating to the entire issued share capital of Asian East Limited (carrying on business in Hong Kong as “Asian East Capital Limited”);
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Assumed Debt”	the Keep Speed Assumed Debt or the Jumbo Grace Assumed Debt (as the case may be);
“Bank Loan”	the outstanding bank loan, interest and all other sums owed by Keep Speed pursuant to the loan agreement in relation to a term loan facility in the sum of HK\$4,800,000,000 dated 24 August 2015 between Keep Speed as borrower and Bank of Communications Co., Ltd. Hong Kong Branch as lender, or if such bank loan is repaid but its repayment is refinanced by a new bank loan obtained by Keep Speed or any of Jumbo Grace and Chinese Estates (Windsor House) prior to or upon completion of the Disposal Agreements, the outstanding bank loan, interest and all other sums owed by Keep Speed or any of Jumbo Grace and Chinese Estates (Windsor House) pursuant to such new bank loan;
“Bank Loan Documents”	the loan and security documents executed in respect of the Bank Loan;
“Best Range”	Best Range Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Lau indirectly;
“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;

DEFINITIONS

“CE Guarantee”	any guarantee, surety, security or indemnity given by any member of the Group (other than the Target Companies) in respect of the obligations or liabilities of Keep Speed or any of Jumbo Grace and Chinese Estates (Windsor House);
“CELIC”	China Entertainment and Land Investment Company, Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company;
“Chinese Estates (Windsor House)”	Chinese Estates (Windsor House) Limited (formerly known as “Country Luck Investment Limited”), a company incorporated in Hong Kong with limited liability and a subsidiary of Jumbo Grace;
“close associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Club Membership”	the nominee membership of The Hong Kong Golf Club held by Chinese Estates (Windsor House);
“Company”	Chinese Estates Holdings Limited (Stock Code: 127), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
“Completion Date”	the Keep Speed Completion Date or the Jumbo Grace Completion Date (as the case may be);
“Condition Precedent”	the condition precedent to the completion of the Disposal Agreements as set out in the section headed “The Condition Precedent of the Disposal Agreements” under the letter from the Board of this circular;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Consideration”	the Keep Speed Consideration or the Jumbo Grace Consideration (as the case may be);
“Deposits”	the aggregate amounts equivalent to (i) the Windsor Special Dividend receivable by Global King and JLLHIL, or their nominees or custodians, as Shareholders; and (ii) any additional deposits of any amount on top of the aforesaid Windsor Special Dividend which Best Range shall be entitled to pay to Good Top prior to completion of the Jumbo Grace Disposal Agreement pursuant to the Jumbo Grace Disposal Agreement;
“Director(s)”	director(s) of the Company;

DEFINITIONS

“Disposal Agreements”	comprising the Keep Speed Disposal Agreement and the Jumbo Grace Disposal Agreement, and “ Disposal Agreement ” means each or any of them;
“Disposal Transactions”	the transactions contemplated under the Disposal Agreements;
“Dividend Entitlements”	the entitlements to the Windsor Special Dividend by certain Shareholders who have executed and delivered to Good Top and the Company the Letter of Payment Direction;
“Encumbrances”	any interest or equity of any person (including, without limitation, any right to acquire, option or right of pre-emption) and any charge, mortgage, security interest, pledge, lien (including retention of title claims), assignment, power of sale or hypothecation and any rental, hire purchase, creditor, conditional sale or other third party right or restriction or encumbrance of any nature whatsoever (whether or not perfected);
“Global King”	Global King (PTC) Ltd., a company incorporated in the BVI with limited liability and a Shareholder and an associate of Mr. Lau, which is wholly owned by the trustee of a discretionary trust of which Mr. Lau is the founder and a beneficiary;
“Good Top”	Good Top Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company;
“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;

DEFINITIONS

“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”	Crowe Horwath (HK) Consulting & Valuation Limited;
“Independent Shareholders”	Shareholders other than the Shareholders who have a material interest in the Disposal Transactions (including Mr. Lau and his associate(s));
“Independent Shareholders’ Approval”	approval by the Independent Shareholders at the SGM in respect of the Disposal Agreements and the Disposal Transactions;
“JLLHIL”	Joseph Lau Luen Hung Investments Limited, a company incorporated in the BVI with limited liability and a Shareholder and an associate of Mr. Lau, which is wholly owned by the trustee of a discretionary trust of which Mr. Lau is the founder and a beneficiary;
“Jumbo Grace”	Jumbo Grace Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company;
“Jumbo Grace Assumed Debt”	all sums due and owing to any of Jumbo Grace and Chinese Estates (Windsor House) by any member of the Group (other than Keep Speed and the Jumbo Grace Group) as at the Jumbo Grace Completion Date;
“Jumbo Grace Completion Accounts”	the unaudited consolidated statement of comprehensive income of the Jumbo Grace Group for the period from 1 January 2016 and ending on the Jumbo Grace Completion Date and the unaudited consolidated statement of financial position of the Jumbo Grace Group as at the Jumbo Grace Completion Date, each prepared in accordance with HKFRSs;
“Jumbo Grace Completion Date”	any Business Day falling between 1 January 2016 and 31 December 2016 (both days inclusive) as shall be agreed between Good Top and Best Range for the purpose of completion of the Jumbo Grace Disposal Agreement, or failing agreement, 31 December 2016;

DEFINITIONS

“Jumbo Grace Consideration”	the aggregate consideration for the purchase of the Jumbo Grace Sale Share and the Jumbo Grace Sale Loan pursuant to the Jumbo Grace Disposal Agreement;
“Jumbo Grace Disposal Agreement”	the sale and purchase agreement dated 23 December 2015 entered into among Good Top, the Company, Best Range and Mr. Lau relating to the entire issued share capital of Jumbo Grace and the Jumbo Grace Sale Loan;
“Jumbo Grace Disposal Transaction”	the transactions contemplated under the Jumbo Grace Disposal Agreement;
“Jumbo Grace Group”	comprising Jumbo Grace and its subsidiary, Chinese Estates (Windsor House);
“Jumbo Grace Long Stop Date”	30 June 2016 or such other date as may be agreed between Good Top and Best Range;
“Jumbo Grace Provisional Consideration”	a sum of HK\$10,633,394,886 less the estimated outstanding amount of the Bank Loan as of the Jumbo Grace Completion Date (which estimated outstanding amount of the Bank Loan shall be advised by Good Top to Best Range in writing by not later than 14 days prior to the Jumbo Grace Completion Date) as the provisional consideration payable by Best Range to Good Top upon completion of the Jumbo Grace Disposal Agreement;
“Jumbo Grace Sale Loan”	all sums due or owing by the Jumbo Grace Group to other members of the Group (other than Keep Speed and the Jumbo Grace Group) as at the Jumbo Grace Completion Date;
“Jumbo Grace Sale Share”	the one share of Jumbo Grace beneficially owned by and registered in the name of Good Top, representing the entire issued share capital of Jumbo Grace;
“Keep Speed”	Keep Speed Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“Keep Speed Assumed Debt”	all sums due and owing to Keep Speed by any member of the Group (other than the Jumbo Grace Group) as at the Keep Speed Completion Date;

DEFINITIONS

“Keep Speed Completion Accounts”	the unaudited statement of comprehensive income of Keep Speed for the period from 1 January 2016 and ending on the Keep Speed Completion Date and the unaudited statement of financial position of Keep Speed as at the Keep Speed Completion Date, each prepared in accordance with HKFRSs;
“Keep Speed Completion Date”	any Business Day falling between 1 January 2016 and 31 December 2016 (both days inclusive) as shall be agreed between CELIC and Magic Square for the purpose of completion of the Keep Speed Disposal Agreement, or failing agreement, 31 December 2016;
“Keep Speed Consideration”	the aggregate consideration for the purchase of the Keep Speed Sale Share and the Keep Speed Sale Loan pursuant to the Keep Speed Disposal Agreement;
“Keep Speed Disposal Agreement”	the sale and purchase agreement dated 23 December 2015 entered into among CELIC, the Company, Magic Square and Mr. Lau relating to the entire issued share capital of Keep Speed and the Keep Speed Sale Loan;
“Keep Speed Disposal Transaction”	the transactions contemplated under the Keep Speed Disposal Agreement;
“Keep Speed Long Stop Date”	30 June 2016 or such other date as may be agreed between CELIC and Magic Square;
“Keep Speed Provisional Consideration”	a sum of HK\$2.00 as the provisional consideration payable by Magic Square to CELIC upon completion of the Keep Speed Disposal Agreement;
“Keep Speed Sale Loan”	all sums due or owing by Keep Speed to other members of the Group (other than the Jumbo Grace Group) as at the Keep Speed Completion Date;
“Keep Speed Sale Share”	the two shares of Keep Speed beneficially owned by CELIC, representing the entire issued share capital of Keep Speed;
“Latest Practicable Date”	12 January 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Letter of Payment Direction”	a letter of payment direction regarding the Dividend Entitlements to the Windsor Special Dividend by certain Shareholders;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Magic Square”	Magic Square Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Lau indirectly;
“Mr. Lau”	Mr. Joseph Lau, Luen-hung, a substantial Shareholder and a controlling Shareholder;
“Potential Lease”	a potential lease, tenancy or license of the retail portion of the Properties or any part thereof;
“Potential Tenant”	any potential or prospective tenant or licensee of the retail portion of the Properties;
“PRC”	the People’s Republic of China, which for purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Properties”	the properties held directly by Chinese Estates (Windsor House) as set out in the section headed “Information of the Assets to be Disposed of – Information of the Properties” under the letter from the Board of this circular;
“Provisional Consideration”	the Keep Speed Provisional Consideration or the Jumbo Grace Provisional Consideration (as the case may be);
“Related Party”	for the purpose of the Stock Exchange Undertaking, a director, a substantial shareholder, a subsidiary or an associated company of the Company (other than a wholly-owned subsidiary of the Company) or an associate of any such person, save that any associated company of the Company which was formed with other independent third parties who is/are not connected person(s) of the Company as a joint venture consortium to engage in real property development projects will not be regarded as a Related Party pursuant to the Stock Exchange Undertaking;
“Relevant Owner(s)”	Mr. Lau and/or his close associate(s) (including without limitation, Best Range) who is/are the owner(s) of the retail portion of the Properties;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“Sale Loan”	the Keep Speed Sale Loan or the Jumbo Grace Sale Loan (as the case may be);
“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 2 February 2016 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;
“Share Mortgage”	the share mortgage in respect of the entire issued share capital of Chinese Estates (Windsor House) in favour of the lender under the Bank Loan Documents, and as at the Latest Practicable Date, being the share mortgage in respect of the entire issued share capital of Chinese Estates (Windsor House) dated 31 August 2015 between Jumbo Grace and Chinese Estates, Limited as shareholders and Bank of Communications Co., Ltd. Hong Kong Branch as lender;
“Shareholder(s)”	the holder(s) of the Share(s);
“Silvercord First SP Agreement”	the sale and purchase agreement dated 1 September 2014 entered into among Super Series Limited, the Company, Fly High Target Limited and Mr. Lau relating to the entire issued share capital of Brass Ring Limited;
“Silvercord SP Agreements”	collectively, (i) Silvercord First SP Agreement; (ii) the sale and purchase agreement dated 1 September 2014 entered into among Super Series Limited, the Company, Fly High Target Limited and Mr. Lau relating to the entire issued share capital of Union Leader Limited; and (iii) the sale and purchase agreement dated 1 September 2014 entered into among Chinese Estates, Limited, the Company, Coast Field Ltd. and Mr. Lau relating to the entire issued share capital of Silvercord Finance Limited (formerly known as “Chinese Estates and Finance, Limited”);
“SP Agreements”	collectively, the Silvercord SP Agreements and the Asian East SP Agreement;
“SP Transactions”	the transactions contemplated under the SP Agreements;

DEFINITIONS

“Specified Transaction(s)”	<p>for the purpose of the Stock Exchange Undertaking, transaction(s) between the Company or any of its subsidiaries and a Related Party being:–</p> <ul style="list-style-type: none">(a) any acquisition or disposal of assets by the Company or any of its subsidiaries whether in the ordinary and usual course of business of such company and/or on normal commercial terms or not;(b) an arrangement or agreement whereby the Company or any of its subsidiaries directly or indirectly grants a loan or gives other financial assistance to a Related Party; or(c) an arrangement or agreement whereby the Company or any of its subsidiaries provides security, whether by guarantee or otherwise, for the due discharge of any obligation of a Related Party; <p>which, in any such case, is for a consideration or in respect of a principal amount which, when aggregated with the consideration or principal amount of any other Specified Transaction(s) between the Company or any of its subsidiaries and any Related Party carried into effect during the previous 12 months, exceeds HK\$200 million;</p>
“sq.m.”	square metre(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Stock Exchange Undertaking”	the undertaking provided by the Company to the Stock Exchange dated 20 September 1990 (as supplemented on 8 January 1991 and amended by letter dated 24 September 1996 from the Stock Exchange);
“Target Companies”	collectively, Keep Speed, Jumbo Grace and Chinese Estates (Windsor House), and “ Target Company ” means each or any one of them;
“Two Deferred CE Windsor Shares”	two non-voting deferred shares in Chinese Estates (Windsor House) legally and beneficially owned by and registered in the name of Chinese Estates, Limited;

DEFINITIONS

“Windsor Special Dividend”	one or more special cash interim dividend(s) proposed to be declared and paid by the Company to the Shareholders in the anticipation that completion of the Jumbo Grace 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 Jumbo Grace Completion Date; and
“%”	per cent.

LETTER FROM THE BOARD



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

Executive Directors:

Chan, Sze-wan (*Chief Executive Officer*)

Chan, 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
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

15 January 2016

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS DISPOSAL OF SUBSIDIARIES

A. INTRODUCTION

Reference is made to the Announcement. On 23 December 2015, (i) CELIC as vendor, the Company as vendor guarantor, Magic Square as purchaser and Mr. Lau as purchaser guarantor entered into the Keep Speed Disposal Agreement relating to, among others, the sale and purchase of the entire issued share capital of Keep Speed and the Keep Speed Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)); and (ii) Good Top as vendor, the Company as vendor guarantor, Best Range as purchaser and Mr. Lau as purchaser guarantor entered into the Jumbo Grace Disposal Agreement relating to, among others, the sale and purchase of the entire issued share capital of Jumbo Grace and the Jumbo Grace Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)).

LETTER FROM THE BOARD

As the Disposal Agreements were entered into within 12 months after the completion of the SP Agreements, and all such agreements were entered into by the Company with the same connected person and his associates, the Disposal Transactions and the SP Transactions will 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 SP Transactions) exceed 25% but are less than 75%, the Disposal Transactions constitute major transactions for the Company and the Disposal Transactions are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Mr. Lau, being a substantial Shareholder and a controlling Shareholder, who was interested in 1,430,700,768 Shares, representing approximately 74.99% of the total issued Shares as at the Latest Practicable Date, is a director and the sole beneficial owner of each of Magic Square and Best Range respectively, Mr. Lau, Magic Square and Best Range 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 pursuant to 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 valuation report on the Properties; and (v) other information as requested under the Listing Rules together with the notice of SGM.

B. THE DISPOSAL AGREEMENTS

(1) The Keep Speed Disposal Agreement

Date

23 December 2015

Parties

- (a) CELIC, as vendor;
- (b) the Company, as vendor guarantor;
- (c) Magic Square, as purchaser; and
- (d) Mr. Lau, as purchaser guarantor.

LETTER FROM THE BOARD

In consideration of Magic Square and Mr. Lau entering into the Keep Speed Disposal Agreement, the Company has agreed to guarantee the performance by CELIC of its obligations under the Keep Speed Disposal Agreement. In consideration of CELIC and the Company entering into the Keep Speed Disposal Agreement, Mr. Lau has agreed to guarantee the performance by Magic Square of its obligations under the Keep Speed Disposal Agreement.

Assets to be disposed of

The Keep Speed Sale Share and the Keep Speed Sale Loan. As at 30 September 2015, the Keep Speed Sale Loan amounted to approximately HK\$18.6 million. In consideration for the sale or procurement of the sale of the Keep Speed Sale Share and the assignment or procurement of the assignment of the Keep Speed Sale Loan by CELIC to Magic Square or its nominee(s), Magic Square further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Keep Speed Assumed Debt (if any) upon completion of the Keep Speed Disposal Agreement. As at 30 September 2015, the Keep Speed Assumed Debt amounted to approximately HK\$4,805.6 million.

The Keep Speed Sale Share to be acquired by Magic Square shall be free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)) at completion of the Keep Speed Disposal Agreement and with all dividends, benefits and other rights becoming attached or accruing thereto as from the Keep Speed Completion Date.

The Keep Speed Consideration

The Keep Speed Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$10 million):–

- (a) the net asset value or liability of Keep Speed as shown in the Keep Speed Completion Accounts; and
- (b) the aggregate face amount of the Keep Speed Sale Loan, less the aggregate face amount of the Keep Speed Assumed Debt.

At completion of the Keep Speed Disposal Agreement, Magic Square shall pay to CELIC the Keep Speed Provisional Consideration. The difference between the Keep Speed Consideration and the Keep Speed Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Keep Speed Completion Accounts have been delivered to Magic Square.

LETTER FROM THE BOARD

Provided that where the amount of the Keep Speed Consideration as ascertained above is a negative figure or less than HK\$2.00, the Keep Speed Consideration shall be deemed to be HK\$2.00 for the purposes of the Keep Speed Disposal Agreement. If the Keep Speed Consideration is a negative figure, CELIC shall, within 7 Business Days after the determination of the Keep Speed Consideration, pay to Magic Square a sum equal to the amount of such negative figure (as if it were a positive figure for this purpose and subject to such amount not exceeding HK\$5 billion) (the “**Negative Consideration**”) as consideration for Magic Square in substance acquiring a negative equity of Keep Speed, or in lieu of such direct payment of the Negative Consideration to Magic Square, the parties agreed that the payment obligations of CELIC for the Negative Consideration will be deemed fully satisfied and discharged if the Negative Consideration is set-off against and deducted from the Jumbo Grace Consideration payable by Best Range as purchaser under the terms of the Jumbo Grace Disposal Agreement.

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

Undertakings and Indemnity

Prior to completion of the Keep Speed Disposal Agreement, each of Magic Square and Mr. Lau agrees to give and/or procure the provision of such guarantee, indemnity or security as may be reasonably required by the relevant banks or lenders or beneficiaries of the CE Guarantee following or upon completion of the Disposal Agreements to replace the CE Guarantee.

(2) The Jumbo Grace Disposal Agreement

Date

23 December 2015

Parties

- (a) Good Top, as vendor;
- (b) the Company, as vendor guarantor;
- (c) Best Range, as purchaser; and
- (d) Mr. Lau, as purchaser guarantor.

In consideration of Best Range and Mr. Lau entering into the Jumbo Grace Disposal Agreement, the Company has agreed to guarantee the performance by Good Top of its obligations under the Jumbo Grace Disposal Agreement. In consideration of Good Top and the Company entering into the Jumbo Grace Disposal Agreement, Mr. Lau has agreed to guarantee the performance by Best Range of its obligations under the Jumbo Grace Disposal Agreement.

LETTER FROM THE BOARD

Assets to be disposed of

The Jumbo Grace Sale Share and the Jumbo Grace Sale Loan. As at 30 September 2015, the Jumbo Grace Sale Loan amounted to approximately HK\$2,847.9 million. In consideration for the sale or procurement of the sale of the Jumbo Grace Sale Share and the assignment or procurement of the assignment of the Jumbo Grace Sale Loan by Good Top to Best Range or its nominee(s), Best Range further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Jumbo Grace Assumed Debt (if any) upon completion of the Jumbo Grace Disposal Agreement. As at 30 September 2015, the Jumbo Grace Assumed Debt amounted to approximately HK\$280.9 million.

The Jumbo Grace Sale Share to be acquired by Best Range shall be free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)) at completion of the Jumbo Grace Disposal Agreement and with all dividends, benefits and other rights becoming attached or accruing thereto as from the Jumbo Grace Completion Date.

The Jumbo Grace Consideration

The Jumbo Grace Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$12 billion):–

- (a) the consolidated net asset value or liability of the Jumbo Grace Group (for the purpose of ascertaining such consolidated net asset value or liability, Best Range acknowledged and accepted that the Properties shall have a value of HK\$10.8 billion (being the market value of the Properties as at 30 November 2015 valued by the Independent Property Valuer) and the Club Membership (if any) shall have a value of HK\$12.8 million (being the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement) in the Jumbo Grace Completion Accounts); and
- (b) the aggregate face amount of the Jumbo Grace Sale Loan, less the aggregate face amount of the Jumbo Grace Assumed Debt.

At completion of the Jumbo Grace Disposal Agreement, Best Range shall pay to Good Top the Jumbo Grace Provisional Consideration. The difference between the Jumbo Grace Consideration and the Jumbo Grace Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Jumbo Grace Completion Accounts have been delivered to Best Range.

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

Shareholders may refer to Appendix II to this circular with regard to the market value of the Properties as at 30 November 2015. As for the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement, it was estimated with reference to the second hand market prices (inclusive of an add-on 25% transfer fee) of The Hong Kong Golf Club corporate membership as quoted publicly on the internet by a number of independent club membership agency firms. The latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement was derived from the high end of those market quotations.

LETTER FROM THE BOARD

The Deposits

Pursuant to the Jumbo Grace Disposal Agreement, Best Range shall pay to Good Top the Deposits, which will be applied towards settlement of the Jumbo Grace Provisional Consideration at completion of the Jumbo Grace Disposal Agreement.

If the Condition Precedent shall not have been satisfied on or before the Jumbo Grace Long Stop Date, or completion of the Jumbo Grace Disposal Agreement does not proceed and such non-completion does not arise as a result of the default of Best Range or Mr. Lau under the Jumbo Grace Disposal Agreement, Good Top shall return the Deposits (if any) without interest to Best Range within 7 Business Days after receiving a written demand from Best Range for the return.

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

Best Range may elect to settle the Jumbo Grace Provisional Consideration (or any part thereof) by procuring certain Shareholders to apply their Dividend Entitlements, subject to completion of the Jumbo Grace Disposal Agreement, towards the payment of the Jumbo Grace Provisional Consideration and the Company will be authorised and instructed to pay such Dividend Entitlements to Good Top, in lieu of such Shareholders, to settle the Jumbo Grace Provisional Consideration to the extent of the aggregate amount of such Dividend Entitlements.

LETTER FROM THE BOARD

Transfer of the Two Deferred CE Windsor Shares

Subject to completion of the Jumbo Grace Disposal Agreement and the obtaining of all necessary consents from the relevant banks, lenders, finance parties or beneficiaries under the Bank Loan Documents or the release of the Share Mortgage, Best Range shall have the right to request Good Top or the Company to transfer or procure Chinese Estates, Limited to transfer to Best Range or its nominee(s) the Two Deferred CE Windsor Shares free from Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)) at nominal consideration of HK\$2.00 at any time after completion of the Jumbo Grace Disposal Agreement upon written demand by Best Range. Good Top or the Company shall procure that such transfer of the Two Deferred CE Windsor Shares shall be completed within 7 Business Days after Good Top's receipt of the written demand by Best Range.

The Club Membership

After the Condition Precedent for the Jumbo Grace Disposal Agreement has been fulfilled, Good Top shall, if so requested by Best Range, procure Chinese Estates (Windsor House) to dispose of the Club Membership subject to the obtaining of the relevant bank consents or the release of the relevant security under the Bank Loan Documents (if applicable), and such disposal shall be completed before completion of the Jumbo Grace Disposal Agreement (unless otherwise agreed by Best Range).

Undertakings and Indemnity

Prior to completion of the Jumbo Grace Disposal Agreement, each of Best Range and Mr. Lau agrees to give and/or procure the provision of such guarantee, indemnity or security as may be reasonably required by the relevant banks or lenders or beneficiaries of the CE Guarantee following or upon completion of the Disposal Agreements to replace the CE Guarantee.

C. FINANCING UNDER THE DISPOSAL AGREEMENTS

Each of the vendors under the Disposal Agreements has agreed that, if Magic Square or Best Range (as the case may be) needs to raise loans or other borrowings from banks or third parties for its payment of the relevant Provisional Consideration or the relevant Consideration or any part thereof, on the basis of Keep Speed or the Jumbo Grace Group (as the case may be) providing guarantees or securities to such banks or third parties, and if so requested by Magic Square or Best Range (as the case may be) and subject to compliance with all applicable laws and regulations, the vendor under the relevant Disposal Agreement will procure Keep Speed or the Jumbo Grace Group (as the case may be) to give reasonable assistance to Magic Square or Best Range (as the case may be) prior to or at completion of the relevant Disposal Agreement to facilitate the provision of such securities by Keep Speed or the Jumbo Grace Group (as the case may be) and the obtaining of such financing by Magic Square or Best Range (as the case may be) upon completion of the relevant Disposal Agreement.

LETTER FROM THE BOARD

Given the above guarantee(s) or security(ies) if provided by Keep Speed or the Jumbo Grace Group (as the case may be) will only be provided if completion of the Disposal Agreements occurs, and that upon completion thereof, Keep Speed and the Jumbo Grace Group will cease to be subsidiaries of the Company but become wholly-owned subsidiaries of Magic Square and Best Range respectively, such financial assistance will therefore be provided by the subsidiary(ies) of Magic Square or Best Range (as the case may be). Hence, the assistance if provided by the vendor under the relevant Disposal Agreement will be administrative assistance in facilitating Magic Square or Best Range (as the case may be) to obtain financing to complete the relevant Disposal Agreement. Such administrative assistance is not unusual in sale and purchase transactions of this kind.

D. THE CONDITION PRECEDENT OF THE DISPOSAL AGREEMENTS

Completion of each of the Disposal Agreements is conditional upon the obtaining of the Independent Shareholders' Approval. As at the Latest Practicable Date, the Condition Precedent had not yet been fulfilled.

If the Condition Precedent shall not have been fulfilled on or before the Keep Speed Long Stop Date or the Jumbo Grace Long Stop Date (as the case may be), the Disposal Agreements 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 relevant Disposal Agreement).

E. COMPLETION OF THE DISPOSAL AGREEMENTS

Subject to the Condition Precedent having been satisfied, completion of the Keep Speed Disposal Agreement and the Jumbo Grace Disposal Agreement shall take place on the Keep Speed Completion Date and the Jumbo Grace Completion Date simultaneously, upon and subject to its relevant terms. The parties to the Disposal Agreements undertake with each other parties thereto to use their respective reasonable endeavours and in good faith to proceed with completion of the relevant Disposal Agreement as soon as practicable after the fulfilment of the Condition Precedent.

F. EFFECT OF THE DISPOSAL TRANSACTIONS

After completion of the Disposal Agreements, the Target Companies will cease to be subsidiaries of the Company, and their financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

LETTER FROM THE BOARD

Principal assets of the Jumbo Grace Group are the Properties which are recorded as investment properties in the consolidated financial statements of the Group. Pursuant to the accounting policies of the Group, the Properties (being investment properties) are measured at fair value in the consolidated financial statements of the Group. Gains and losses arising from changes in the fair values of the Properties are included in profit or loss for the period in which they arise. Accordingly, the Properties will be measured at their fair value on the Jumbo Grace Completion Date. Any changes in the fair value of the Properties on the Jumbo Grace Completion Date to that stated in the consolidated financial statements of the Group will be included in profit or loss as fair value gains or losses. On the other hand, pursuant to the accounting policies of the Group, the carrying amount of the Club Membership is stated at cost less accumulated impairment losses (if any) in the consolidated financial statements of the Group.

It is expected that the fair value gains or losses as a result of the fair value changes of the Properties will be entirely eroded by the gain or loss on the Jumbo Grace Disposal Transaction (being the difference between the market value of the Properties as at 30 November 2015 for the purpose of ascertaining the net asset value to determine the Jumbo Grace Consideration and the carrying amount of the Properties recorded in the consolidated financial statements of the Group on the Jumbo Grace Completion Date). However, as it is agreed under the Jumbo Grace Disposal Agreement that the Club Membership shall have a value of HK\$12.8 million in the Jumbo Grace Completion Accounts, the Group is expected to record a gain of HK\$7.9 million (being the difference between the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement and its carrying amount as at 30 September 2015) upon completion of the Jumbo Grace Disposal Transaction. In addition, transaction costs of the Disposal Transactions of approximately HK\$5 million will be recorded, as a result, the estimated net gain on disposal would be approximately HK\$2.9 million.

On this basis together with assuming the aggregate of (i) the relevant net asset value or liability of the Target Companies on the relevant Completion Date (after adjusting the carrying amount of the Properties to their market value as at 30 November 2015 and the carrying amount of the Club Membership to its latest market value before entering into the Jumbo Grace Disposal Agreement); and (ii) the relevant Sale Loan less the relevant Assumed Debt on the relevant Completion Date, not exceeding the relevant cap of the Consideration or the Negative Consideration (if any) not exceeding HK\$5 billion (as the case may be), it is estimated that the Group will record net gain of approximately HK\$2.9 million on the Disposal Transactions. Moreover, this estimation is made based on the aggregate of the relevant estimated Consideration determined based on the relevant net asset value of the Target Companies as at 30 September 2015 (after taking into account the market value of the Properties as at 30 November 2015 and the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement) and the relevant Sale Loan less the relevant Assumed Debt as at 30 September 2015, less the aggregate of (i) the relevant net asset value of the Target Companies as at 30 September 2015 after adjusting the carrying amount of the Properties to their market value as at 30 November 2015; and (ii) the relevant Sale Loan less the relevant Assumed Debt as at 30 September 2015. The actual net gain or loss on completion of the Disposal Agreements might be different given that the above estimate is based on (i) the relevant net asset value of the Target Companies (taking into account the market value of the Properties as at 30 November 2015); and (ii) the relevant Sale Loan and the relevant Assumed Debt as at 30 September 2015, which might be different from those on the relevant Completion Date.

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Following completion of the Disposal Agreements, the Target Companies will cease to be subsidiaries of the Company and their financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group. Keep Speed had outstanding Bank Loan of HK\$4,800 million as at 30 September 2015. Such Bank Loan may or may not be fully repaid prior to completion of the Disposal Agreements. In any event, the level of borrowings of the Group shall be reduced after completion of the Keep Speed Disposal Agreement, and this will result in lower finance costs to be incurred by the Group after completion of the Keep Speed Disposal Agreement. Moreover, rental income of Chinese Estates (Windsor House) will not be recorded in the consolidated financial statements of the Group following completion of the Jumbo Grace Disposal Agreement, and this will lead to a drop of rental income of the Group. As explained above, it is estimated that the Group will record net gain of approximately HK\$2.9 million on the Disposal Transactions. Accordingly, it is expected that the disposal of the Target Companies itself will have no material effects on the net asset value of the Group.

Upon completion of the Disposal Agreements, the Group will continue its existing business activities other than those related to the Properties. The Disposal Transactions represent only approximately 8.6%, 10.0% and 16.9% of the total assets as at 30 June 2015 (the “**Total Assets**”), net profits for the year ended 31 December 2014 (the “**Net Profits**”) and total revenue for the year ended 31 December 2014 (the “**Total Revenue**”) of the Group respectively. After deducting the Disposal Transactions (as aggregated with previous disposal transactions completed in year 2015 and to be completed), the remaining Total Assets, Net Profits and Total Revenue of the Group will amount to approximately HK\$44.5 billion (without taking into account the possible payment of the Windsor Special Dividend as the exact amount of which was undetermined as at the Latest Practicable Date), HK\$5.0 billion and HK\$0.7 billion respectively. Accordingly, the Board considers that the remaining assets, profits and revenue of the Group will remain substantial and sufficient to warrant the continued listing of the Shares.

The Group functions as a conglomerate which engages in various businesses other than property leasing. Upon completion of the Disposal Agreements, the Group will continue its existing business activities other than those related to the Properties, and its principal activities will continue to be property investment and development, brokerage, securities investment, money lending and cosmetics distribution and trading. Under the current situation where the local economy is undergoing certain micro adjustment and the property market is expecting market correction, the Company will remain skeptically proactive and continue to monitor the property markets of Hong Kong, Mainland China and overseas closely. The Company may utilise the Group’s available internal resources after completion of the Disposal Transactions to replenish its land bank and identify potential acquisition targets to expand its investment property portfolio at opportune times. As at the Latest Practicable Date, the Company had not identified any potential acquisition targets.

LETTER FROM THE BOARD

G. INFORMATION OF THE GROUP AND THE VENDORS

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

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

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

H. INFORMATION OF THE PURCHASERS

Each of Magic Square and Best Range is an investment holding company wholly owned and used by Mr. Lau for the purpose of holding the assets to be acquired under the Disposal Agreements.

I. INFORMATION OF THE ASSETS TO BE DISPOSED OF

Information of the Target Companies

Keep Speed is a loan financing company incorporated in Hong Kong and a direct wholly-owned subsidiary of CELIC. Jumbo Grace is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of Good Top. Chinese Estates (Windsor House) is a property investment company incorporated in Hong Kong that owns the Properties and a subsidiary of Jumbo Grace.

After completion of the Keep Speed Disposal Agreement, Magic Square will become the beneficial owner of the entire issued share capital of Keep Speed, and Keep Speed will cease to be a subsidiary of the Company.

After completion of the Jumbo Grace Disposal Agreement, Best Range will become the beneficial owner of the entire issued share capital of Jumbo Grace, and Jumbo Grace and Chinese Estates (Windsor House) will cease to be subsidiaries of the Company.

As at the Latest Practicable Date, other than the Properties, the Club Membership, debtors and prepayments and certain pledged bank deposits, the Target Companies did not have any other material assets.

LETTER FROM THE BOARD

A summary of the audited results of Keep Speed for each of the two years ended 31 December 2013 and 2014 prepared in accordance with HKFRSs is set out below:–

	For the year ended 31 December 2013 (HK\$ million)	For the year ended 31 December 2014 (HK\$ million)
Keep Speed		
Revenue	115.8	110.7
Profit before tax	0.8	0.8
Profit after tax	0.8	0.8

A summary of the unaudited consolidated results of the Jumbo Grace Group for each of the two years ended 31 December 2013 and 2014 prepared in accordance with HKFRSs is set out below:–

	For the year ended 31 December 2013 (HK\$ million)	For the year ended 31 December 2014 (HK\$ million)
Jumbo Grace Group		
Revenue	421.5	448.7
Fair value changes on investment properties	342.0	586.3
Profit before tax	607.0	876.6
Profit after tax	563.5	828.9

As at 30 September 2015, the unaudited net asset value of Keep Speed was approximately HK\$0.8 million while the unaudited consolidated net asset value of the Jumbo Grace Group was approximately HK\$8,036.1 million; the amount of the Keep Speed Sale Loan and the amount of the Jumbo Grace Sale Loan were approximately HK\$18.6 million and approximately HK\$2,847.9 million respectively; and the amount of the Keep Speed Assumed Debt and the amount of the Jumbo Grace Assumed Debt were approximately HK\$4,805.6 million and approximately HK\$280.9 million respectively.

LETTER FROM THE BOARD

Information of the Properties

Chinese Estates (Windsor House) is the owner of the Properties, which details are set out below:–

Properties	Usage	Attributable interests to the Group
The properties known as “Windsor House” situated at No. 311 Gloucester Road, Causeway Bay, Hong Kong	Commercial	100%

J. COMPETING INTERESTS

In consideration of Good Top and the Company entering into the Jumbo Grace Disposal Agreement, subject to completion of the Jumbo Grace Disposal Agreement having occurred, Mr. Lau has undertaken to Good Top and the Company in the Jumbo Grace Disposal Agreement that so long as he and/or his close associate(s) (including without limitation Best Range) is/are the owner(s) of the retail portion of the Properties and so long as he or his close associate(s) is a director of the Company whilst the Group still owns retail properties in Causeway Bay, Hong Kong, whenever there is any Potential Tenant approaching the Relevant Owner or its agent for a Potential Lease, Mr. Lau will not and, will procure the Relevant Owner not to, accept or enter into the Potential Lease unless the following steps have been done:–

- (a) the Relevant Owner has notified the Company (or any person designated by the Company from time to time to receive notification from the Relevant Owner for such purpose) the opportunity for the Potential Lease and referred the Potential Tenant to the Group for a potential lease, tenancy or license of the retail properties in Causeway Bay, Hong Kong owned by the Group, except that no such notification and referral need to be made by the Relevant Owner if the Potential Tenant disagrees with or refuses to such notification and referral (in which case the Relevant Owner shall be free to take up the Potential Lease); and
- (b) following the notification and referral mentioned in paragraph (a) above, the Group has decided not to accept the Potential Tenant for the lease, tenancy or licence of its retail properties in Causeway Bay, Hong Kong and conveyed its decline decision to the Relevant Owner or the Group has not notified in writing to the Relevant Owner its decision to accept the Potential Tenant within 3 weeks of the notification and referral mentioned in paragraph (a) above.

LETTER FROM THE BOARD

The Company proposes to adopt the following measures to monitor the compliance of the above undertakings when such undertakings are in force:–

- (i) a standard clause is proposed to be inserted into all the tenancy or leasing documents in respect of the retail portion of the Properties to be entered into between the Relevant Owner and the Potential Tenant, or alternatively a side letter to be signed and given by the Potential Tenant, whereby the Potential Tenant will confirm that it has been recommended or referred to lease the retail properties in Causeway Bay, Hong Kong owned by the Group before entering into the tenancy or leasing documents and that despite the recommendation or referral it does not intend to lease the retail properties in Causeway Bay, Hong Kong owned by the Group or it intends to lease the retail properties in Causeway Bay, Hong Kong owned by the Group but the Group has declined to lease the same to it;
- (ii) where the Potential Tenant intends to lease the retail properties in Causeway Bay, Hong Kong owned by the Group following the above recommendation or the referral but the Group has declined to lease the same to it, the reasons for the decline decisions will be properly recorded and documented by the Group and the relevant records will be passed to the independent non-executive Directors for information purposes annually at the same time as the submission of the tenancy or leasing documents and side letters to the independent non-executive Directors contemplated in sub-paragraph (iv) below;
- (iii) written instructions will be given by the Company to each of the staff responsible for leasing of the retail portion of the Properties in respect of the measures mentioned in (i) and (ii) above;
- (iv) copies of all such tenancy or leasing documents and side letters will be submitted to and reviewed by the independent non-executive Directors annually, for the purpose of monitoring the compliance of the above undertakings; and
- (v) the independent non-executive Directors will study the documents and records as provided above and discuss their findings with the responsible officers. If there is anything unusual, the independent non-executive Directors will ask for, and evaluate the adequacy of, the explanations. If the explanations are not acceptable to them, the independent non-executive Directors will propose additional measures and internal procedures which they may consider necessary or desirable for redressing the problems or deficiencies identified or better monitoring of the compliance of the above undertakings. In addition, the independent non-executive Directors will disclose the result of their review in the annual report. In the course of their review, the independent non-executive Directors may seek independent legal and/or financial advice, and (if necessary) commission independent third party to carry out a full and thorough investigation into the unusual matters and make recommendations to them on ways of redressing the problems, and upon completion of the investigation, depending on the seriousness of the outcome, take appropriate remedial measures to safeguard the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Board (including the independent non-executive Directors, after taking into account the opinion and advice from Gram Capital) considers that the above measures are able to resolve the potential competition conflict between Mr. Lau or his close associate(s) and the Group that may follow from completion of the Jumbo Grace Disposal Transaction.

K. REASONS FOR AND BENEFITS OF THE DISPOSAL TRANSACTIONS

As the performance of certain retail business sectors in Hong Kong has shown indications of reaching their peaks, recent market reports have revealed a downturn of rental income in the retail sector, especially in prime location such as Causeway Bay, Hong Kong. Decrease in Mainland China tourists' average spending also affects retail rental income. According to the Hong Kong Monthly Digest of Statistics issued in December 2015 by the Census and Statistics Department of Hong Kong, the average rents for private retail on Hong Kong island dropped from the recent peak of HK\$1,695 per sq.m. in August 2015 to HK\$1,617 per sq.m. in October 2015. During the said period under review, the rental indices for Hong Kong's private retail also dropped from 185.0 to 180.2 (year 1999 = 100). In June 2015, the average rents for private offices (Grade A) in Wanchai/ Causeway Bay reached the recent peak of HK\$866 per sq.m. but dropped to HK\$736 per sq.m. in October 2015. The situation is expected to intensify when full impact would become apparent after the alternation of the multiple-entries arrangement under the individual visit scheme for Shenzhen residents in the first half of year 2015. The Federal Reserve announced the increase in interest rate of the United States of America by 0.25% on 16 December 2015 and the Hong Kong Monetary Authority has followed suit, causing bank borrowing's interest expenses to increase, which would in turn result in reduction of the net return from holding investment properties and therefore potentially Shareholders' return. Accordingly, the Company considers that despite that the Group will forgo the stable and considerable rental income from the Properties, this would be an appropriate time to dispose of the Properties in order to seize the opportunity to maximise the return derived from the Properties, and unlock the value of its investments in the Properties in light of the possible downturn of the property market in Hong Kong.

In view of the fact that the effort of the Group leasing the Properties out fully with a view to maximising the rental income of the Properties has been completed, the executive Directors decided to negotiate detailed terms with Mr. Lau, whom they regarded as a committed and capable purchaser already familiar with the Properties. Negotiations with Mr. Lau could proceed in complete confidence without disturbing the market and the executive Directors have a high degree of certainty that the Jumbo Grace Disposal Transaction will proceed to completion as planned. The Jumbo Grace Consideration is determined by reference to the market value of the Properties as at 30 November 2015 as valued by the Independent Property Valuer and will be paid entirely in cash. In addition, the structure of the Jumbo Grace Disposal Transaction is similar to the transactions contemplated under the Silvercord First SP Agreement and the Asian East SP Agreement. The SP Transactions (including the declaration of dividends as contemplated thereunder) were approved by the then independent shareholders of the Company by an overwhelming majority in favour at the relevant Company's special general meetings, indicating that independent shareholders of the Company were agreeable to the distribution of substantial special dividends. As such, the Board considers that accepting another offer of similar nature and terms will facilitate enhancement of return to the Shareholders and allow them to realise the

LETTER FROM THE BOARD

intrinsic value of the Shares in the form of special dividends. Following these successful models, the executive Directors currently intend that a majority part of the net sale proceeds derived from the Disposal Transactions may be used to pay the Windsor Special Dividend to the Shareholders on or after the Jumbo Grace Completion Date, and the remaining net sale proceeds for general working capital of the Group, subject to the then business, financial and cashflow position of the Group at the respective point in time. In view of the Share Mortgage of which the entire issued share capital of Chinese Estates (Windsor House) has been charged in connection with the Bank Loan, the Board considers it is appropriate to dispose of Keep Speed together with Jumbo Grace.

As disclosed in detail in the section headed “Effect of the Disposal Transactions” under this letter, after deducting the Disposal Transactions (as aggregated with previous disposal transactions completed in year 2015 and to be completed), the remaining assets, profits and revenue of the Group will remain substantial. In addition, given that as at the Latest Practicable Date, the Company had not identified any potential acquisition targets, 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 considers that the possible distribution of the Windsor Special Dividend is in the interests of the Company and the Shareholders as a whole.

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 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.

L. USE OF PROCEEDS

Based on the assumption that the relevant Consideration is determined based on the relevant net asset value of the Target Companies as at 30 September 2015 after adjusting the carrying amount of the Properties to their market value as at 30 November 2015 and the carrying amount of the Club Membership to its latest market value before entering into the Jumbo Grace Disposal Agreement and the relevant Sale Loan less the relevant Assumed Debt as at 30 September 2015, it is estimated that the aggregate net sale proceeds arising from the Disposal Transactions would be approximately HK\$5,842.2 million, after deducting the transaction costs related to the Disposal Transactions of approximately HK\$5 million.

Subject to the then business, financial and cashflow position of the Group at completion of the Disposal Agreements and assuming the Disposal Transactions 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 Disposal Transactions may be used to pay the Windsor Special Dividend to the Shareholders on or after completion of the Jumbo Grace Disposal Agreement (which is scheduled under the Jumbo Grace Disposal Agreement to be on or before 31 December 2016) in one or more phases. The aggregate amount of the Windsor Special Dividend to be paid to the Shareholders shall not exceed the net sale proceeds of the Disposal Transactions. A small portion of such net sale proceeds will be used for general working capital of the Group. In this regard, the Disposal Transactions would enable the Shareholders to benefit from the Windsor Special Dividend. The Board will take into account the then business, financial and cashflow position of the Group at the respective point in time and the progress of the development of the Disposal Transactions before any Windsor Special Dividend is proposed and declared.

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If the Company does not proceed with the distribution of the Windsor Special Dividend, the net sale proceeds from the Disposal Transactions will be used for general working capital purposes. Further announcement(s) would be made by the Company in relation to the proposed distribution of the Windsor Special Dividend, if any, as and when appropriate.

M. LISTING RULES IMPLICATION FOR THE DISPOSAL TRANSACTIONS

As the Disposal Agreements were entered into within 12 months after the completion of the SP Agreements, and all such agreements were entered into by the Company with the same connected person and his associates, the Disposal Transactions and the SP Transactions will 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 SP Transactions) exceed 25% but are less than 75%, the Disposal Transactions constitute major transactions for the Company and the Disposal Transactions are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Mr. Lau, being a substantial Shareholder and a controlling Shareholder, who was interested in 1,430,700,768 Shares, representing approximately 74.99% of the total issued Shares as at the Latest Practicable Date, is a director and the sole beneficial owner of each of Magic Square and Best Range respectively, Mr. Lau, Magic Square and Best Range 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 pursuant to Chapter 14A of the Listing Rules.

Each of Mr. Lau, Ming-wai, Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Ms. Amy Lau, Yuk-wai is an associate of Mr. Lau, who is a substantial Shareholder and a controlling Shareholder, and a director and the sole beneficial owner of each of Magic Square and Best Range respectively. Notwithstanding that none of the Directors has a material interest in the Disposal Transactions, in view of their relationship with Mr. Lau, each of Mr. Lau, Ming-wai, Ms. Chan, Sze-wan, Ms. Chan, Lok-wan and Ms. Amy Lau, Yuk-wai (if he or she was present at the relevant board meetings) abstained from voting on the Board resolutions approving the Disposal Agreements and the Disposal Transactions. Save as disclosed above, no other Directors abstained from voting on the Board resolutions approving the Disposal Agreements and the Disposal Transactions.

N. 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.

LETTER FROM THE BOARD

O. SGM

The Company will convene the SGM at Falcon Room, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Tuesday, 2 February 2016 at 10:00 a.m. to consider the Disposal Agreements and the Disposal Transactions. An ordinary resolution will be put to the vote by poll at the SGM pursuant to the Listing Rules. A notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular.

Any Shareholder with a material interest in the Disposal Transactions and his/her/its associate(s) are required to abstain from voting on the resolution approving the Disposal Agreements and the Disposal Transactions in accordance with the Listing Rules. Accordingly, Mr. Lau and his associate(s) will abstain from voting on the resolution approving the Disposal Agreements and the Disposal Transactions 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 Mr. Lau is a substantial Shareholder and a controlling Shareholder and also a director and the sole beneficial owner of each of Magic Square and Best Range respectively, each of Mr. Lau, Magic Square and Best Range 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 a general meeting of the Company at which any Shareholder who is a Related Party will abstain from voting.

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.

P. 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-15 in this circular.

LETTER FROM THE BOARD

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 resolution approving the Disposal Agreements and the Disposal Transactions contemplated thereunder at the SGM.

Q. GENERAL

Shareholders and potential investors of the Company should note that completion of each of the Disposal Agreements is subject to the satisfaction of the Condition Precedent, namely, the obtaining of the Independent Shareholders' Approval. 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.

R. ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

15 January 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 15 January 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 SP Agreements, and all such agreements were entered into by the Company with the same connected person and his associates, the Disposal Transactions and the SP Transactions will 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 SP 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board and the letter from Gram Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the opinion and advice of, Gram Capital as set out in its letter of advice, we consider that the terms of the Disposal 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 resolution approving the Disposal Agreements and the 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

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal 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

15 January 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 15 January 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 23 December 2015, (i) CELIC as vendor, the Company as vendor guarantor, Magic Square as purchaser and Mr. Lau as purchaser guarantor entered into the Keep Speed Disposal Agreement relating to, among others, the sale and purchase of the entire issued share capital of Keep Speed and the Keep Speed Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)); and (ii) Good Top as vendor, the Company as vendor guarantor, Best Range as purchaser and Mr. Lau as purchaser guarantor entered into the Jumbo Grace Disposal Agreement relating to, among others, the sale and purchase of the entire issued share capital of Jumbo Grace and the Jumbo Grace Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)).

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 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.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Chan, Kwok-wai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Disposal 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 resolution 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.

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.

We have not made an independent evaluation or appraisal of the assets and liabilities of either the Group or the Target Companies and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report dated 15 January 2016 prepared by Crowe Horwath (HK) Consulting & Valuation Limited, being the Independent Property Valuer, in respect of the Properties (the "**Valuation Report**"). The Valuation Report was prepared in compliance with The HKIS Valuation Standards published by The Hong Kong Institute of Surveyors, the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors, the International Valuation Standards published by the International Valuation Standards Council and 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 30 November 2015.

LETTER FROM GRAM CAPITAL

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 Target Companies, Magic Square, Best Range, Mr. Lau 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.

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 property investment and development, brokerage, securities investment, money lending and cosmetics distribution and trading.

LETTER FROM GRAM CAPITAL

Set out below are the latest key financial information of the Group as extracted from the Company's 2014 annual report (the "2014 Annual Report") and its 2015 interim report (the "2015 Interim Report"):

	For the year ended 31 December 2014 <i>HK\$'000</i>
Revenue (<i>audited</i>)	2,627,288
– Property rental income	1,939,378
– Sales of properties held for sale	617,086
– Gains on sales of investments held-for-trading	29,074
– Hotel operation income	25,356
– Brokerage and cosmetic income	16,389
– Interest income from loan financing	5
Profit for the year (<i>audited</i>)	8,752,899
	As at 30 June 2015 <i>HK\$'000</i>
Total equity (<i>unaudited</i>)	36,570,132

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 2015 Interim Report, the overall occupancy rate of the Group's retail portfolio in Hong Kong was approximately 99.15% during the six months ended 30 June 2015 and the retail rents were generally raised in the first half of 2015. However, rental rates of certain retail business sectors have shown indications of reaching their peaks.

LETTER FROM GRAM CAPITAL

As at the Latest Practicable Date, the Group's major continuing retail properties held for rental purpose in Hong Kong included "Causeway Place", "Windsor House" (i.e. the Properties), "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 the shops of "Causeway Place" (excluding those disposed of) and "Windsor House" were approximately 87.55% and 98.53% respectively for the six months ended 30 June 2015. 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 and the average occupancy rate of the shops of "Coronation Circle" was approximately 62.21% for the six months ended 30 June 2015.

The occupancy rate for the Group's office properties maintained at a high level throughout the six months ended 30 June 2015. During the said period, the average occupancy rates of "Windsor House" (i.e. the Properties) and "Harcourt House" were approximately 93.14% and 99.52% respectively.

The Group also holds several properties for rental purpose in the PRC and they are located in prime cities such as Shenzhen, Shanghai and Beijing. Besides the aforesaid, the Group's overseas property investment includes a freehold office building in London of the United Kingdom and it was fully let out as at 30 June 2015.

Property development

For the year ended 31 December 2014, approximately 23.49% of the Group's revenue was derived from sales of properties held for sale. With reference to the 2014 Annual Report as well as the 2015 Interim Report, the Group's property development projects in Hong Kong had been progressing satisfactorily in both 2014 and the first half of 2015.

With reference to the 2015 Interim Report and as advised by the Directors, the Group will consider realising its property interests in the PRC if good opportunity arises while at the same time, the Group will continue monitoring the property markets of Hong Kong, the PRC and overseas closely, and may replenish its land bank and expand its investment property portfolio at opportune times.

Information on the Target Companies

The Target Companies comprise Keep Speed, Jumbo Grace and Chinese Estates (Windsor House).

As disclosed in the Board Letter, Keep Speed is a loan financing company incorporated in Hong Kong and a direct wholly-owned subsidiary of CELIC. Jumbo Grace is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of Good Top. Chinese Estates (Windsor House) is a property investment company incorporated in Hong Kong that owns the Properties and a subsidiary of Jumbo Grace. As at the Latest Practicable Date, other than the Properties, the Club Membership, debtors and prepayments and certain pledged bank deposits, the Target Companies did not have any other material assets.

LETTER FROM GRAM CAPITAL

As also disclosed in the Board Letter, (i) Keep Speed recorded revenue and profit after tax of approximately HK\$110.7 million and HK\$0.8 million respectively for the year ended 31 December 2014; and (ii) the Jumbo Grace Group recorded consolidated revenue and consolidated profit after tax of approximately HK\$448.7 million and HK\$828.9 million respectively for the year ended 31 December 2014.

As disclosed in the Board Letter, as at 30 September 2015, the unaudited net asset value of Keep Speed was approximately HK\$0.8 million while the unaudited consolidated net asset value of the Jumbo Grace Group was approximately HK\$8,036.1 million; the amount of the Keep Speed Sale Loan and the amount of the Jumbo Grace Sale Loan were approximately HK\$18.6 million and approximately HK\$2,847.9 million respectively; and the amount of the Keep Speed Assumed Debt and the amount of the Jumbo Grace Assumed Debt were approximately HK\$4,805.6 million and approximately HK\$280.9 million respectively.

Reasons for the Disposal Transactions and use of proceeds

Reasons for the Disposal Transactions

With reference to the Board Letter, as the performance of certain retail business sectors in Hong Kong has shown indications of reaching their peaks, recent market reports have revealed a downturn of rental income in the retail sector, especially in prime location such as Causeway Bay, Hong Kong. Decrease in Mainland China tourists' average spending also affects retail rental income. According to the Hong Kong Monthly Digest of Statistics issued in December 2015 by the Census and Statistics Department of Hong Kong, the average rents for private retail on Hong Kong island dropped from the recent peak of HK\$1,695 per sq.m. in August 2015 to HK\$1,617 per sq.m. in October 2015. During the said period under review, the rental indices for Hong Kong's private retail also dropped from 185.0 to 180.2 (year 1999 = 100). In June 2015, the average rents for private offices (Grade A) in Wanchai/Causeway Bay reached the recent peak of HK\$866 per sq.m. but dropped to HK\$736 per sq.m. in October 2015. The situation is expected to intensify when full impact would become apparent after the alternation of the multiple-entries arrangement under the individual visit scheme for Shenzhen residents in the first half of 2015. The Federal Reserve announced the increase in interest rate of the United States of America by 0.25% on 16 December 2015 and the Hong Kong Monetary Authority has followed suit. The Company considers that, despite that the Group will forgo the stable and considerable rental income from the Properties, this would be an appropriate time to dispose of the Properties in order to seize the opportunity to maximise the return derived from the Properties, and unlock the value of its investments in the Properties in light of the possible downturn of the property market in Hong Kong.

LETTER FROM GRAM CAPITAL

In view of the fact that the effort of the Group leasing the Properties out fully with a view to maximising the rental income of the Properties has been completed, the executive Directors decided to negotiate detailed terms with Mr. Lau, whom they regarded as a committed and capable purchaser already familiar with the Properties. Negotiations with Mr. Lau could proceed in complete confidence without disturbing the market and the executive Directors have a high degree of certainty that the Jumbo Grace Disposal Transaction will proceed to completion as planned. The Jumbo Grace Consideration is determined by reference to the market value of the Properties as at 30 November 2015 as valued by the Independent Property Valuer and will be paid entirely in cash. In addition, the structure of the Jumbo Grace Disposal Transaction is similar to the transactions contemplated under the Silvercord First SP Agreement and the Asian East SP Agreement. The SP Transactions (including the declaration of dividends as contemplated thereunder) were approved by the then independent shareholders of the Company by an overwhelming majority in favour at the relevant Company's special general meetings, indicating that independent shareholders of the Company were agreeable to the distribution of substantial special dividends. As such, the Board considers that accepting another offer of similar nature and terms will facilitate enhancement of return to the Shareholders and allow them to realise the intrinsic value of the Shares in the form of special dividends. Following these successful models, the executive Directors currently intend that a majority part of the net sale proceeds derived from the Disposal Transactions may be used to pay the Windsor Special Dividend to the Shareholders on or after the Jumbo Grace Completion Date, and the remaining net sale proceeds for general working capital of the Group, subject to the then business, financial and cashflow position of the Group at the respective point in time. In view of the Share Mortgage of which the entire issued share capital of Chinese Estates (Windsor House) has been charged in connection with the Bank Loan, the Board considers it is appropriate to dispose Keep Speed together with Jumbo Grace.

We noted that the Disposal Transactions were well received by the public investors, given that the closing price of the Shares rose from around HK\$24 per Share on 23 December 2015 (being the date of the Announcement) to HK\$25.2 per Share on the next trading day following the publication of the Announcement.

Use of proceeds

Based on the assumption that the relevant Consideration is determined based on the relevant net asset value of the Target Companies as at 30 September 2015 after adjusting the carrying amount of the Properties to their market value as at 30 November 2015 and the carrying amount of the Club Membership to its latest market value before entering into the Jumbo Grace Disposal Agreement and the relevant Sale Loan less the relevant Assumed Debt as at 30 September 2015, it is estimated that the aggregate net sale proceeds arising from the Disposal Transactions would be approximately HK\$5,842.2 million, after deducting the transaction costs related to the Disposal Transactions of approximately HK\$5 million.

LETTER FROM GRAM CAPITAL

Subject to the then business, financial and cashflow position of the Group at completion of the Disposal Agreements and assuming the Disposal Transactions 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 Disposal Transactions may be used to pay the Windsor Special Dividend to the Shareholders on or after completion of the Jumbo Grace Disposal Agreement (which is scheduled under the Jumbo Grace Disposal Agreement to be on or before 31 December 2016) in one or more phases. The aggregate amount of the Windsor Special Dividend to be paid to the Shareholders shall not exceed the net sale proceeds of the Disposal Transactions. A small portion of such net sale proceeds will be used for general working capital of the Group. In this regard, the Disposal Transactions would enable the Shareholders to benefit from the Windsor Special Dividend. The Board will take into account the then business, financial and cashflow position of the Group at the respective point in time and the progress of the development of the Disposal Transactions before any Windsor Special Dividend is proposed and declared.

If the Company does not proceed with the distribution of the Windsor Special Dividend, the net sale proceeds from the Disposal Transactions will be used for general working capital purposes.

Despite that the Group will forgo the stable and considerable rental income from the Properties, taking into account that (i) the SP Transactions had been well received by the then independent shareholders of the Company and the Disposal Transactions follow the successful model of the SP Transactions; (ii) the possible distribution of the Windsor Special Dividend using the net sale proceeds from the Disposal Transactions would be beneficial to the Shareholders; (iii) the Properties have been leased out almost fully and hence the maximisation of rental income of the Properties by the Group has been completed; (iv) the Directors expected that the Group would be facing potential downturn in rental income in the retail sector and reduction of the net return from holding investment properties due to the possible downturn of the property market in Hong Kong (as supported by the above-mentioned market statistics); and (v) as set forth under the section headed “Business review of the Group” of this letter and will be further elaborated under the section headed “Possible financial effects of the Disposal Transactions” of this letter, the Properties is only one of the investment properties within the Group’s investment property portfolio and the Group also engages in various businesses other than property leasing, 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.

LETTER FROM GRAM CAPITAL

2. Principal terms of the Disposal Agreements

The Keep Speed Disposal Agreement

On 23 December 2015, CELIC as vendor, the Company as vendor guarantor, Magic Square as purchaser and Mr. Lau as purchaser guarantor entered into the Keep Speed Disposal Agreement relating to, among others, the sale and purchase of the entire issued share capital of Keep Speed and the Keep Speed Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)).

As at 30 September 2015, the Keep Speed Sale Loan amounted to approximately HK\$18.6 million. In consideration for the sale or procurement of the sale of the Keep Speed Sale Share and the assignment or procurement of the assignment of the Keep Speed Sale Loan by CELIC to Magic Square or its nominee(s), Magic Square further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Keep Speed Assumed Debt (if any) upon completion of the Keep Speed Disposal Agreement. As at 30 September 2015, the Keep Speed Assumed Debt amounted to approximately HK\$4,805.6 million.

The Keep Speed Consideration

Pursuant to the Keep Speed Disposal Agreement, the Keep Speed Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$10 million):

- (a) the net asset value or liability of Keep Speed as shown in the Keep Speed Completion Accounts; and
- (b) the aggregate face amount of the Keep Speed Sale Loan, less the aggregate face amount of the Keep Speed Assumed Debt.

At completion of the Keep Speed Disposal Agreement, Magic Square shall pay to CELIC the Keep Speed Provisional Consideration. The difference between the Keep Speed Consideration and the Keep Speed Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Keep Speed Completion Accounts have been delivered to Magic Square.

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

Provided that where the amount of the Keep Speed Consideration as ascertained above is a negative figure or less than HK\$2.00, the Keep Speed Consideration shall be deemed to be HK\$2.00 for the purposes of the Keep Speed Disposal Agreement. If the Keep Speed Consideration is a negative figure, CELIC shall, within 7 Business Days after the determination of the Keep Speed Consideration, pay to Magic Square a sum equal to the amount of such negative figure (as if it were a positive figure for this purpose and subject to such amount not exceeding HK\$5 billion) (the “**Negative Consideration**”) as consideration for Magic Square in substance acquiring a negative equity of Keep Speed, or in lieu of such direct payment of the Negative Consideration to Magic Square, the parties agreed that the payment obligations of CELIC for the Negative Consideration will be deemed fully satisfied and discharged if the Negative Consideration is set-off against and deducted from the Jumbo Grace Consideration payable by Best Range as purchaser under the terms of the Jumbo Grace Disposal Agreement.

LETTER FROM GRAM CAPITAL

Furthermore, based on the unaudited accounts of Keep Speed, (i) the net asset value of Keep Speed was approximately HK\$0.8 million as at 30 September 2015; (ii) the aggregate face amount of the Keep Speed Sale Loan was approximately HK\$18.6 million as at 30 September 2015; and (iii) the aggregate face amount of the Keep Speed Assumed Debt was approximately HK\$4,805.6 million as at 30 September 2015. Accordingly, the Negative Consideration as at 30 September 2015 amounted to approximately HK\$4,786.2 million and the Keep Speed Consideration would be deemed to be HK\$2.00.

Notwithstanding that the Group will record no material gain/loss on the Keep Speed Disposal Transaction (before taking into account the transaction costs of the Disposal Transactions and assuming the Keep Speed Consideration does not exceed the cap of the Keep Speed Consideration or the Negative Consideration does not exceed HK\$5 billion (as the case may be)), given that (i) the Keep Speed Consideration and the Negative Consideration were determined with reference to the assets and liabilities of Keep Speed as well as the aggregate amount of the Keep Speed Sale Loan less the aggregate amount of the Keep Speed Assumed Debt by their face value on a dollar-to-dollar basis; and (ii) the Keep Speed Disposal Transaction forms part of the Disposal Transactions (the estimated net gain on which would be approximately HK\$2.9 million), we are of the view that the aforesaid formula for calculating the Keep Speed Consideration/Negative Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Undertakings and indemnity

Prior to completion of the Keep Speed Disposal Agreement, each of Magic Square and Mr. Lau agrees to give and/or procure the provision of such guarantee, indemnity or security as may be reasonably required by the relevant banks or lenders or beneficiaries of the CE Guarantee following or upon completion of the Disposal Agreements to replace the 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.

The Jumbo Grace Disposal Agreement

On 23 December 2015, Good Top as vendor, the Company as vendor guarantor, Best Range as purchaser and Mr. Lau as purchaser guarantor entered into the Jumbo Grace Disposal Agreement relating to, among others, the sale and purchase of the entire issued share capital of Jumbo Grace and the Jumbo Grace Sale Loan free from all Encumbrances (where the relevant bank consents have been obtained, save for the Encumbrances created by the Bank Loan Document(s)).

As at 30 September 2015, the Jumbo Grace Sale Loan amounted to approximately HK\$2,847.9 million. In consideration for the sale or procurement of the sale of the Jumbo Grace Sale Share and the assignment or procurement of the assignment of the Jumbo Grace Sale Loan by Good Top to Best Range or its nominee(s), Best Range further agreed to assume or procure (through its nominee(s)) to assume the obligation of repayment of the Jumbo Grace Assumed Debt (if any) upon completion of the Jumbo Grace Disposal Agreement. As at 30 September 2015, the Jumbo Grace Assumed Debt amounted to approximately HK\$280.9 million.

LETTER FROM GRAM CAPITAL

The Jumbo Grace Consideration

The Jumbo Grace Consideration shall be equal to the aggregate of (but subject to a cap amount of HK\$12 billion):

- (a) the consolidated net asset value or liability of the Jumbo Grace Group (for the purpose of ascertaining such consolidated net asset value or liability, Best Range acknowledged and accepted that the Properties shall have a value of HK\$10.8 billion (being the market value of the Properties as at 30 November 2015 valued by the Independent Property Valuer) (the “**Valuation**”) and the Club Membership (if any) shall have a value of HK\$12.8 million (being the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement, the “**Club Membership Value**”) in the Jumbo Grace Completion Accounts); and
- (b) the aggregate face amount of the Jumbo Grace Sale Loan, less the aggregate face amount of the Jumbo Grace Assumed Debt.

At completion of the Jumbo Grace Disposal Agreement, Best Range shall pay to Good Top the Jumbo Grace Provisional Consideration. The difference between the Jumbo Grace Consideration and the Jumbo Grace Provisional Consideration will be settled in cash or cheque within 7 Business Days after the Jumbo Grace Completion Accounts have been delivered to Best Range.

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

Based on the unaudited consolidated accounts of the Jumbo Grace Group, the Valuation and the Club Membership Value, (i) the unaudited consolidated net asset value of the Jumbo Grace Group would be approximately HK\$8,066.4 million (having included the Valuation of HK\$10.8 billion and the Club Membership Value of HK\$12.8 million) as at 30 September 2015; (ii) the aggregate face amount of the Jumbo Grace Sale Loan was approximately HK\$2,847.9 million as at 30 September 2015; and (iii) the aggregate face amount of the Jumbo Grace Assumed Debt was approximately HK\$280.9 million as at 30 September 2015. Accordingly, the Jumbo Grace Consideration would be approximately HK\$10,633.4 million.

With reference to the Board Letter, the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement was estimated with reference to the second hand market prices (inclusive of an add-on 25% transfer fee) of The Hong Kong Golf Club corporate membership as quoted publicly on the internet by a number of independent club membership agency firms (the “**Quotations**”). For our due diligence purpose, we have requested and obtained from the Company the webpages of the aforesaid independent club membership agency firms which contain the Quotations and we noted that the latest market value of the Club Membership available to the Company before entering into the Jumbo Grace Disposal Agreement was derived from the high end of the Quotations.

In light of that the Jumbo Grace Consideration was determined with reference to the Valuation as evaluated by the Independent Property Valuer, the Club Membership Value and the remaining assets and liabilities of the Jumbo Grace Group as well as the aggregate amount of the Jumbo Grace Sale Loan less the aggregate amount of the Jumbo Grace Assumed Debt were set at

LETTER FROM GRAM CAPITAL

their face value on a dollar-to-dollar basis, we are of the view that the aforesaid formula for calculating the Jumbo Grace Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

The Valuation

To further assess the fairness and reasonableness of the Jumbo Grace 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 Valuation. In the course of our discussion, we noted that the Independent Property Valuer carried out an inspection of the Properties in December 2015. Based on the Valuation Report, the Independent Property Valuer has adopted both comparison approach and income approach for the Valuation. As further confirmed by the Independent Property Valuer, both comparison approach and income approach are commonly adopted for valuation of properties in Hong Kong and are also consistent with normal market practice. Accordingly, we consider that the Valuation Report is sufficient for us to support our assessment on the basis for calculation of the Jumbo Grace 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 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, Keep Speed, the Jumbo Grace Group, Magic Square, Best Range and Mr. Lau.

Further details of the basis and assumptions of the 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 factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the Valuation. Nevertheless, Shareholders should note that valuation of assets or properties usually involves assumptions and therefore the Valuation may or may not reflect the true market value of the Properties accurately.

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

The Deposits

Pursuant to the Jumbo Grace Disposal Agreement, Best Range shall pay to Good Top the Deposits, which will be applied towards settlement of the Jumbo Grace Provisional Consideration at completion of the Jumbo Grace Disposal Agreement.

LETTER FROM GRAM CAPITAL

Best Range may elect to settle the Jumbo Grace Provisional Consideration (or any part thereof) by procuring certain Shareholders to apply their Dividend Entitlements, subject to completion of the Jumbo Grace Disposal Agreement, towards the payment of the Jumbo Grace Provisional Consideration and the Company will be authorised and instructed to pay such Dividend Entitlements to Good Top, in lieu of such Shareholders, to settle the Jumbo Grace Provisional Consideration to the extent of the aggregate amount of such Dividend Entitlements.

Undertakings and indemnity

Prior to completion of the Jumbo Grace Disposal Agreement, each of Best Range and Mr. Lau agrees to give and/or procure the provision of such guarantee, indemnity or security as may be reasonably required by the relevant banks or lenders or beneficiaries of the CE Guarantee following or upon completion of the Disposal Agreements to replace the 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.

3. Non-competition undertaking by Mr. Lau

In consideration of Good Top and the Company entering into the Jumbo Grace Disposal Agreement, subject to completion of the Jumbo Grace Disposal Agreement having occurred, Mr. Lau has undertaken to Good Top and the Company in the Jumbo Grace Disposal Agreement that so long as he and/or his close associate(s) (including without limitation Best Range) is/are the owner(s) of the retail portion of the Properties and so long as he or his close associate(s) is a director of the Company whilst the Group still owns retail properties in Causeway Bay, Hong Kong, whenever there is any Potential Tenant approaching the Relevant Owner or its agent for a Potential Lease, Mr. Lau will not and, will procure the Relevant Owner not to, accept or enter into the Potential Lease unless the following steps have been done: -

- (a) the Relevant Owner has notified the Company (or any person designated by the Company from time to time to receive notification from the Relevant Owner for such purpose) the opportunity for the Potential Lease and referred the Potential Tenant to the Group for a potential lease, tenancy or license of the retail properties in Causeway Bay, Hong Kong owned by the Group, except that no such notification and referral need to be made by the Relevant Owner if the Potential Tenant disagrees with or refuses to such notification and referral (in which case the Relevant Owner shall be free to take up the Potential Lease); and
- (b) following the notification and referral mentioned in paragraph (a) above, the Group has decided not to accept the Potential Tenant for the lease, tenancy or licence of its retail properties in Causeway Bay, Hong Kong and conveyed its decline decision to the Relevant Owner or the Group has not notified in writing to the Relevant Owner its decision to accept the Potential Tenant within 3 weeks of the notification and referral mentioned in paragraph (a) above.

Shareholders may also refer to the section headed “Competing Interests” of the Board Letter with regard to the measures which the Company proposes to adopt to monitor the compliance of the above undertakings.

LETTER FROM GRAM CAPITAL

We concur with the Directors that the above undertaking and measures would be able to resolve the potential competition and conflict of interest between Mr. Lau or his close associate(s) and the Group that may follow after completion of the Disposal Transactions and thus are favourable to the Company.

4. Possible financial effects of the Disposal Transactions

As advised by the Directors, after completion of the Disposal Agreements, the Target Companies will cease to be subsidiaries of the Company, and their 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 “Effect of the Disposal Transactions” of the Board Letter, it is expected that the fair value gains or losses as a result of the fair value changes of the Properties will be entirely eroded by the gain or loss on the Jumbo Grace Disposal Transaction (being the difference between the market value of the Properties as at 30 November 2015 for the purpose of ascertaining the net asset value to determine the Jumbo Grace Consideration and the carrying amount of the Properties recorded in the consolidated financial statements of the Group on the Jumbo Grace Completion Date). However, as it is agreed under the Jumbo Grace Disposal Agreement that the Club Membership shall have a value of HK\$12.8 million in the Jumbo Grace Completion Accounts, the Group is expected to record a gain of HK\$7.9 million (being the difference between the latest market value of the Club Membership before entering into the Jumbo Grace Disposal Agreement and its carrying amount as at 30 September 2015) upon completion of the Jumbo Grace Disposal Transaction. In addition, transaction costs of the Disposal Transactions of approximately HK\$5 million will be recorded, as a result, the estimated net gain on disposal would be approximately HK\$2.9 million.

The actual net gain or loss on completion of the Disposal Agreements might be different given that the above estimate is based on (i) the relevant net asset value of the Target Companies (taking into account the market value of the Properties as at 30 November 2015), and (ii) the relevant Sale Loan and the relevant Assumed Debt as at 30 September 2015, which might be different from those on the relevant 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.

LETTER FROM GRAM CAPITAL

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 resolution 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 resolution in this regard.

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

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 are disclosed in the annual reports of the Company for the years ended 31 December 2012, 2013 and 2014 and the interim report of the Company for the six months ended 30 June 2015 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 2012 published on 19 April 2013 (pages 83 – 232);
- 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); and
- interim report of the Company for the six months ended 30 June 2015 published on 24 September 2015 (pages 2 – 34).

2. INDEBTEDNESS**Borrowings**

As at the close of business on 30 November 2015, 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:

	30 November 2015
	<i>HK\$'000</i>
Secured bank loans	10,724,419
Other secured loans	4,296,870
Amounts due to associates	1,787,747
Amounts due to investee companies	27,085
Amounts due to non-controlling shareholders	521,489
	<hr/>
	17,357,610
	<hr/> <hr/>

The bank loans and the other loans were secured by the Group's investment properties, property, investments held-for-trading, bonds, pledged deposits and interests in certain subsidiaries of the Company.

Guarantees

As at 30 November 2015, the Group continued to provide (i) financial guarantee on banking facilities in lieu of the cash public utility deposit jointly utilised by the Company's subsidiaries; and (ii) rental guarantee of certain disposed properties to certain purchasers. Details of the guarantees are as follow:

	30 November 2015
	<i>HK\$'000</i>
Guarantee given to a bank in respect of banking facilities in lieu of the cash public utility deposit jointly utilised by subsidiaries	15,000
Rental guarantee given to certain property purchasers of a subsidiary	<u>1,414</u>
	<u><u>16,414</u></u>

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 2015, 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 were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited accounts of the Group were made up to, up to and including the Latest Practicable Date, except:-

- (i) as disclosed in the profit warning announcement of the Company and the 2015 interim report of the Company published on 7 August 2015 and 24 September 2015 respectively, the Group recorded a decline in revenue and a loss for the six months ended 30 June 2015 as compared to the revenue and a profit for the six months ended 30 June 2014. It was primarily due to disposal of Silvercord property, no dividend income from the Group's investee company in respect of property development and trading, decline in sale of trading properties and loss in the fair value changes on investment properties;

- (ii) as disclosed in the 2015 interim report of the Company published on 24 September 2015, following the completion of the Silvercord SP Agreements and the completion of the Asian East SP Agreement on 13 January 2015 and 15 July 2015 respectively, it is expected that the Group's rental income and revenue for the year ended 31 December 2015 will record a sizable decrease when compared to those for the year ended 31 December 2014;
- (iii) as disclosed in the discloseable transaction announcement of the Company published on 14 July 2015 in respect of disposals of subsidiaries, following the completion of the disposals, the revenue and the profit of the subsidiaries in Chengdu, the PRC will no longer be included in the consolidated statement of comprehensive income of the Group. It is expected that the Group's revenue and profit from property development and trading for the year ended 31 December 2015 will record a sizable decrease when compared to those for the year ended 31 December 2014;
- (iv) as disclosed in the 2015 interim report of the Company published on 24 September 2015, on 7 August 2015, an associate of the Group (50% interest) entered into a sale and purchase agreement in relation to disposal of a company that ultimately held the office building namely Platinum located in Shanghai, the PRC. Following completion of the disposal, it is expected that the share of results of associate will decrease for the year ended 31 December 2015;
- (v) the payment of special interim dividends of HK\$4,959.8 million and HK\$2,289.1 million on 15 July 2015 and 14 September 2015 respectively, which had reduced the working capital, total assets and net assets of the Group when compared to those as at 31 December 2014;
- (vi) the declaration of conditional special interim dividend as disclosed in the announcement of the Company published on 21 December 2015, which is conditional upon completion of the disposal transaction announced in the announcement of the Company dated 12 November 2015, and which is expected to be paid on or about 20 January 2016. After such payment, it is expected that the Group will record a decrease in working capital, total assets and net assets; and
- (vii) as disclosed in the voluntary announcement of the Company published on 4 January 2016, the Group had disposed of certain listed securities investments and treasury products in the ordinary and normal course of business. It is expected that realised loss of approximately HK\$36.1 million would be recognised in profit/loss for the year ended 31 December 2015. The loss had also reduced the net assets of the Group when compared to that as at 31 December 2014.

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

At present, the local economy is undergoing certain kind of micro adjustment and the property market is expecting market correction. Although the Group's local retail investment properties leased well, the Group will continue to closely monitor the changes in local consumption patterns, boost customer flow and spending for its remaining retail investment properties by organising various marketing and promotional activities.

As at the Latest Practicable Date, the Group's principal properties in the PRC included Evergo Tower in Shanghai, Lowu Commercial Plaza in Shenzhen, Oriental Place in Beijing (50% interest) and Hilton Beijing (50% interest). The Group will consider realising its property interests in the PRC if good opportunity arises, at the same time, the Group will continue monitoring the property markets of Hong Kong, the PRC and overseas closely, and may replenish its land bank and expand its investment property portfolio at opportune times.

APPENDIX II PROPERTY VALUATION REPORT ON THE PROPERTIES

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Crowe Horwath (HK) Consulting & Valuation Limited, in connection with its opinion of market value of the Properties as at 30 November 2015.



國富浩華(香港)諮詢評估有限公司
Crowe Horwath (HK) Consulting & Valuation Limited
Member Crowe Horwath International
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
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傳真 Fax +852 2895 3752
www.crowehorwath.hk

Date: 15 January 2016

The Directors
Chinese Estates Holdings Limited
26/F, MassMutual Tower,
38 Gloucester Road,
Wanchai,
Hong Kong

Dear Sirs,

**RE: VALUATION OF PROPERTY –
WINDSOR HOUSE, NO. 311 GLOUCESTER ROAD, CAUSEWAY BAY, HONG KONG**

In accordance with the instruction from Chinese Estates Holdings Limited (hereafter referred to as the “**Company**”) for us to value the above property interests in the property known as “Windsor House” (hereafter referred to as the “**Property**”), which is held by the Company and/or its subsidiaries (hereafter together referred to as the “**Group**”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the Property as at 30 November 2015 (the “**Date of Valuation**”) for circular purpose only.

Valuation Basis

Our valuation is carried out on a Market Value basis, which is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.”

This valuation is complied with The HKIS Valuation Standards published by The Hong Kong Institute of Surveyors, the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors, the International Valuation Standards published by the International Valuation Standards Council and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all monetary amount is stated in Hong Kong Dollars (“**HK\$**”).

Valuation Assumptions

Our valuation has been made on the assumption that the owner sells the Property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the value of the Property.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free of encumbrances, restrictions and outgoings of onerous nature which could affect its value.

For the purpose of valuation, we have adopted the areas as appeared in the copies of the documents as provided, and no further verification work has been conducted.

Valuation Methodology

We have valued the Property by both comparison approach and income approach. Comparison approach consists of comparisons based on prices realised of comparable properties. Comparable properties of similar size, character and location are selected and then analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. We have also valued the Property by the income approach. Income approach takes into account the current passing rents of the Property and the reversionary potentials of the tenancies, and we capitalised the existing tenancies' and assembled it with the reversionary interest, which has been derived by discounting the market rents on vacant possession basis as assessed by the comparison method with appropriate property yield(s).

Title Investigation

We have caused searches at the Land Registry in Hong Kong. We have not, however, searched the original documents to verify ownership or any amendment which did not appear on the copies handed to us. All documents have been used for reference only. We assume no responsibility for matters legal in nature nor do we render any opinion as to the title to the Property that is assumed to be good and marketable.

Limiting Conditions

An inspection of the Property was carried by Mr. Alex Leung on 28 December 2015. The staff responsible for the inspection has over 20 years of experience in the real property sector in Hong Kong. We have inspected the exterior and certain common parts of the Property. We have not inspected those parts of the Property which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the area(s) shown on the title documents and official site plan(s) handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

APPENDIX II PROPERTY VALUATION REPORT ON THE PROPERTIES

In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey or any tests on the building services. Therefore, we are not able to report whether the Property is free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions, the services, etc. for any future development. We have not carried out any investigation into past or present uses, either of the Property or of any neighboring land, to establish whether there is any contamination or potential for contamination to the Property from these uses or sites, and have therefore assumed that none exists.

We have relied to a considerable extent on the information and advice given or made available to us by the Group and relevant government authorities on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, tenancy agreements and all other relevant matters. We have not seen original planning consents and have assumed that the Property is erected, occupied and used in accordance with such consents.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Crowe Horwath (HK) Consulting & Valuation Limited
Leo Ming-yan Lo
MRICS, MHKIS
Director

- (1) *Mr. Leo Ming-yan Lo is a Director of Crowe Horwath (HK) Consulting & Valuation Limited. Mr. Lo is a member of Royal Institution of Chartered Surveyors (MRICS) and member of Hong Kong Institute of Surveyors (MHKIS). Mr. Lo has over 10 years' experience in valuation of properties in Hong Kong.*
- (2) *Inspection of the Property was carried out on 28 December 2015 by Mr. Alex PW Leung, a Director of Crowe Horwath (HK) Consulting & Valuation Limited. Mr. Leung is a member of Royal Institution of Chartered Surveyors (MRICS) and member of Hong Kong Institute of Surveyors (MHKIS). Mr. Leung has more than 20 years' experience in the inspection and valuation of various types of properties in Hong Kong.*

APPENDIX II PROPERTY VALUATION REPORT ON THE PROPERTIES

VALUATION CERTIFICATE

Property	Description and tenure	Occupancy details	Market Value in existing state as at 30 November 2015
<p>Windsor House, No. 311 Gloucester Road, Causeway Bay, Hong Kong</p> <p>The Remaining Portions of Inland Lot Nos. 7717 and 7718, Section A of Inland Lot No. 781 and Sections A and C of Inland Lot No. 782</p>	<p>The Property, Windsor House, is a 41-storey (including a basement) commercial building with ancillary car parking facilities of total 157 car parking spaces and completed in 1979.</p> <p>Retail/commercial portion comprises 17 floors including Basement, Ground Floor and 1st to 15th Floors, with various types like boutiques, restaurants, beauty shops, cinemas, etc. The 16th to 39th Floors were designed for office use except 18th and 31st Floors for mechanical uses.</p> <p>The total gross floor area of the Property is approximately 75,344.30 sq.m. (811,006 sq.ft.).</p> <p>The Remaining Portions of Inland Lot Nos. 7717 and 7718, Section A of Inland Lot No. 781 and Sections A and C of Inland Lot No. 782 are held under Government Lease for a lease term of 999 years commencing from 24 December 1865. The total Government Rent payable is HK\$1,498.85 p.a..</p>	<p>According to information provided by the Group, occupancy rate of the Property is about 92% in term of gross floor area. The Property is let under various tenancies and licences yielding a total monthly base rental income of about HK\$37.40 million, exclusive of turnover rent, rates and services charges. The latest expiry date of the leases is in November 2019 excluding options to renew.</p> <p>The whole car park has been leased to an operator for a period from 1 October 2015 to 30 September 2018 at a monthly rental of about HK\$1.04 million or 84% of monthly gross revenue, whichever is higher.</p> <p>Other incomes include licence fee for rooftop signage, advertisement spaces, wet sink and air-cooling unit, antenna, etc. The total monthly income of these ancillary facilities is about HK\$0.46 million.</p>	<p>HK\$10,800,000,000 (DOLLARS TEN BILLION AND EIGHT HUNDRED MILLION)</p>

Notes:

- a) The registered owner of the Property is Chinese Estates (Windsor House) Limited, a wholly owned subsidiary of the Group, as per Memorial No. UB3677292 dated 29 January 1988 registered vide.
- b) The Property is subject to Mortgage in favour of Bank of Communications Co., Ltd. Hong Kong Branch registered vide Memorial No. 15091002330045 dated 31 August 2015.
- c) The Property falls within the area zoned as "Commercial" as per the approved Causeway Bay Outline Zoning Plan No. S/H6/15.

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	<i>Note</i>	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

Name of Substantial Shareholders	Number of Shares Held	Notes	Capacity	Percentage of Issued Share Capital
Mr. Lau	1,430,700,768	^	Founder and beneficiary of trust and interest of children under 18	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. Lau was the founder. Mr. Lau and his certain other family members were eligible beneficiaries 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”.

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. 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 Chenghai Bureau's bank deposit of RMB10,000,000. The Group received a further sum of RMB3,000,000 as partial satisfaction of the enforcement on 29 December 2015. Up to 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 sale and purchase agreement dated 1 September 2014 entered into between Data Dynasty Limited (an indirect wholly-owned subsidiary of the Company), the Company, One Midland Limited (wholly owned by Mr. Lau indirectly) and Mr. Lau relating to the sale of the entire issued share capital of Value Eight Limited as disclosed in the announcement of the Company dated 2 September 2014. Completion of such agreement took place on 31 October 2014 and the final consideration was HK\$4,876,161,695.30 as disclosed in the announcement of the Company dated 31 October 2014;

- (b) the sale and purchase agreement dated 1 September 2014 entered into between Super Series Limited (an indirect wholly-owned subsidiary of the Company), the Company, Fly High Target Limited (wholly owned by Mr. Lau indirectly) and Mr. Lau relating to the sale of the entire issued share capital of Brass Ring Limited as disclosed in the announcement of the Company dated 2 September 2014. Completion of such agreement took place on 13 January 2015 and the final consideration was HK\$7,650,826,158.25 as disclosed in the announcement of the Company dated 13 January 2015;
- (c) the sale and purchase agreement dated 1 September 2014 entered into between Super Series Limited (an indirect wholly-owned subsidiary of the Company), the Company, Fly High Target Limited (wholly owned by Mr. Lau indirectly) and Mr. Lau relating to the sale of the entire issued share capital of Union Leader Limited as disclosed in the announcement of the Company dated 2 September 2014. Completion of such agreement took place on 13 January 2015 and the final consideration was HK\$5,200,506.87 as disclosed in the announcement of the Company dated 13 January 2015;
- (d) the sale and purchase agreement dated 1 September 2014 entered into between Chinese Estates, Limited (a direct wholly-owned subsidiary of the Company), the Company, Coast Field Ltd. (wholly owned by Mr. Lau indirectly) and Mr. Lau relating to the sale of the entire issued share capital of Chinese Estates and Finance, Limited (now known as “Silvercord Finance Limited”) as disclosed in the announcement of the Company dated 2 September 2014. Completion of such agreement took place on 13 January 2015 and the final consideration was HK\$121,932.58 as disclosed in the announcement of the Company dated 13 January 2015;
- (e) the sale and purchase agreement dated 12 December 2014 entered into between Rich Lucky Limited (an indirect wholly-owned subsidiary of the Company), the Company, Market Victory Limited (wholly owned by Mr. Lau indirectly) and Mr. Lau relating to the sale of the entire issued share capital of Asian East Limited as disclosed in the announcement of the Company dated 12 December 2014. Completion of such agreement took place on 15 July 2015 as disclosed in the announcement of the Company dated 15 July 2015 and the final consideration was HK\$5,020,555,522.58 as disclosed in the announcement of the Company dated 13 August 2015;
- (f) the equity and debt transfer agreement dated 14 July 2015 entered into between Evergo Holdings (China) Company Limited (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;

- (g) the equity and debt receivable transfer agreement dated 19 October 2015 entered into between Evergo Holdings (China) Company Limited (an indirect wholly-owned subsidiary of the Company) 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 (China) Company Limited at an aggregate consideration of HK\$1,750,000,000 as disclosed in the announcement of the Company dated 19 October 2015;
- (h) 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 at an aggregate consideration of HK\$12,500,000,000 (subject to adjustment) as disclosed in the announcement of the Company dated 12 November 2015; and
- (i) the Disposal Agreements.

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 the tender for the purchase of the 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 submitted by Ms. Amy Lau, Yuk-wai, a non-executive Director.

Save 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 2014, 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.

- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which contract or arrangement was subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, Mr. Lam, Kwong-wai was a non-executive director of LT Commercial Real Estate Limited ("LT") (a company whose shares are listed on the Stock Exchange). LT is engaged in securities investment and financing, property investment and property development businesses. As such, Mr. Lam, Kwong-wai was regarded as being interested in such businesses which competed or were likely to compete with the Group.

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, MassMutual Tower, 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.

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Crowe Horwath (HK) Consulting & Valuation Limited	An independent professional property valuer

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 the 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 2014, being the date up to which the latest published audited financial statements of the Group were made; 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, MassMutual Tower, 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 2012, 2013 and 2014 and the interim report of the Company for the six months ended 30 June 2015;
- (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 referred to in the paragraph headed “Qualification and Consent of Experts” in this appendix; and
- (h) this circular.

NOTICE OF SGM



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 Tuesday, 2 February 2016 at 10:00 a.m. for the purpose of considering and, if thought fit, with or without amendments, passing the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

the terms and conditions, and the entering into, of (i) 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 and Mr. Joseph Lau, Luen-hung relating to, among others, the sale and purchase of the entire issued share capital of Keep Speed Company Limited, and (ii) 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 and Mr. Joseph Lau, Luen-hung relating to, among others, the sale and purchase of the entire issued share capital of Jumbo Grace Limited (collectively, the “**Disposal Agreements**”) (a copy of each of the Disposal Agreements has been produced to the Meeting marked “A” and “B” respectively 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

NOTICE OF SGM

seal where applicable) of all such documents and deeds, and to do or authorise doing all such acts, matters and things, as he/she may in his/her absolute discretion consider necessary, expedient or desirable to give effect to, implement and/or complete all matters in connection with the transactions contemplated under the Disposal Agreements and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of any of the Disposal Agreements, 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, 15 January 2016

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal office in Hong Kong:

26th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Notes:

1. Any shareholder of the Company (the “**Shareholder(s)**”) entitled to attend and vote at the Meeting is entitled to appoint one or more separate 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. Resolution as set out in this notice will be taken by poll at the Meeting.
6. As at the date hereof, the board of directors of the Company comprised Ms. Chan, Sze-wan, Ms. Chan, 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.