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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in Cheung Wo International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Cheung Wo International Holdings Limited.

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**CHEUNG WO INTERNATIONAL HOLDINGS LIMITED****長和國際實業集團有限公司\****(Incorporated in Bermuda with limited liability)***(Stock Code: 00009)****CONNECTED TRANSACTION  
ISSUE OF USD80 MILLION 20% GUARANTEED  
SECURED NOTES DUE 2016  
AND  
NOTICE OF SPECIAL GENERAL MEETING****Financial Adviser to the Company****Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**

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A notice convening the SGM of Cheung Wo International Holdings Limited to be held at Room 4101, 41st Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 11 November 2013 at 11:00 a.m. is set out on pages 51 to 53 of this Circular.

A letter from the Board is set out on pages 7 to 22 of this circular. A letter of recommendation from the Independent Board Committee is set out on pages 23 to 24 of this circular. A letter from Fulbright Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 25 to 45 of this circular.

Whether or not you are able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment thereof should you so wish.

25 October 2013

\* For identification purpose only

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## DEFINITIONS

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

“Account Charge”	the charge over the Interest Reserve Account to be entered into by the Company in favour of the Subscriber on or before the First Tranche Closing Date
“Announcement”	announcement of the Company dated 18 September 2013 in relation to, among others, the Notes Issue
“associates”	has the meaning ascribed to this term under the Listing Rules
“Average Share Price”	the arithmetic average of the closing prices of the Shares on each of the 10 trading days on the Stock Exchange immediately preceding the relevant Interest Payment Date
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday or Sunday or a public holiday in Hong Kong) on which banks are open for general business in Hong Kong
“Change of Control”	occurs if the Guarantor at any time ceases to directly hold, legally and beneficially: <ul style="list-style-type: none"><li>(a) at least 50.01% of the total issued and outstanding Shares of the Company; or</li><li>(b) at least 50.01% of the issued share capital (calculated on a fully-diluted basis) of the Company; or</li><li>(c) issued share capital having the right to cast at least 50.01% of the votes capable of being cast in general meetings of the Company; or</li><li>(d) the right to determine the composition of the majority of the board of directors or equivalent body of the Company</li></ul>
“Change of Control Redemption Date”	a minimum of 5 Business Days and a maximum of 15 Business Days after the date of a notice of redemption by a Noteholder
“Company”	Cheung Wo International Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Conditions”	the terms and conditions of the Notes

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## DEFINITIONS

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“connected person”	has the meaning ascribed to it under the Listing Rules
“Convertible Bonds”	zero coupon convertible bonds due 2018 issued by the Company on 24 May 2013
“Deed of Guarantee”	a deed of guarantee to be executed by the Guarantor on or before the First Tranche Closing Date
“Directors”	the directors of the Company
“Early Redemption Amount”	(a) 100% of the outstanding principal amounts of the Notes plus an early redemption premium of 1% on the principal amount of the Notes and all accrued but unpaid interest to the date of redemption; plus  (b) if the redemption date falls within the Two-Year Period, an additional amount equal to the IRR Amount
“Facility Agreement”	a facility agreement dated 18 September 2013 between, among others, the Subscriber, the Guarantor and the Lender, pursuant to which, the Lender has agreed to provide a loan facility in an amount of not more than USD80,000,000 (equivalent to approximately HK\$620,000,000) to the Subscriber and the Guarantor has agreed to provide guarantee for the performance of the obligations of the Subscriber under the Facility Agreement
“First Tranche Closing Date”	such date as the parties to the Subscription Agreement may agree in writing being no later than three months after the date of the SGM
“First Tranche Notes”	the initial tranche of Notes in a principal amount of USD40,000,000 (equivalent to approximately HK\$310,000,000)
“GFA”	gross floor area
“Group”	the Company and its subsidiaries from time to time
“Guarantor”	Mr. Cheng Keung Fai, a substantial shareholder (has the meaning ascribed to it under the Listing Rules) of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	comprising Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan, all being the independent non-executive Directors

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## DEFINITIONS

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“Independent Financial Adviser” or “Fulbright Capital”	Fulbright Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Guarantor, the Subscriber and their respective associates
“Interest Payment Date”	each date which falls six months after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Second Tranche Closing Date (or if the Second Tranche Notes are not issued, the First Tranche Closing Date)
“Interest Reserve Account”	a designated bank account established by the Company or one of its wholly owned subsidiaries at a bank in Macau
“IRR Amount”	<p>an amount in USD that would ensure that the Noteholders obtain, subject to any mandatory provision of the laws of Hong Kong, an internal rate of return of:</p> <ul style="list-style-type: none"><li>(a) for any redemption of Notes from the Second Tranche Closing Date (or if the Second Tranche Notes are not issued, the First Tranche Closing Date) to the date that is 18 months after such issue date (the “18-Month Period”), 22.5% per annum (calculated on a 360-day year basis) on the principal amount of the Notes for the period from and including the First Tranche Closing Date to the date which falls on the last day of the 18-Month Period; or</li><li>(b) for any redemption of Notes on a date on or after the expiry of the 18-Month Period and before the expiry of the Two-Year Period, 22.5% per annum (calculated on a 360-day year basis) on the principal amount of the Notes for the period from and including the First Tranche Closing Date to the date which falls on the last day of the Two-Year Period</li></ul>
“Last Trading Day”	18 September 2013, being the last trading day of the Shares immediately prior to and including the date of the Subscription Agreement and the Facility Agreement
“Latest Practicable Date”	22 October 2013, being the latest practicable date prior to printing of this circular for ascertaining certain information in this circular

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## DEFINITIONS

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“Lender”	Krystal Light Investment Limited, being the lender for provision of a loan facility in the amount of not more than USD80,000,000 (equivalent to approximately HK\$620,000,000) to the Subscriber pursuant to the Facility Agreement
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Majority Noteholder(s)”	at any time, any one or more Noteholder(s) or being proxies or representatives in respect of the Notes and representing, in the aggregate, more than 50 % of the aggregate principal amount of all Notes then outstanding
“Material Adverse Effect”	a material adverse effect on or material adverse change in (a) the financial condition, assets or business of the Company or the consolidated financial condition, assets or business of the Group taken as a whole; (b) to the best knowledge and belief of the Company, the prospects of the business of the Company and the Group; (c) the ability of the Company or the Guarantor to fully perform and fully comply with its obligations under any Note Document; (d) the validity, legality or enforceability of any Note Document; or (e) the validity, legality or enforceability of the Security or in the priority and ranking of such Security
“Maturity Date”	36 months after the Second Tranche Closing Date (or if the Second Tranche Notes are not issued, the First Tranche Closing Date)
“Minimum Issue Price”	HK\$0.82 per Share
“Note Documents”	the Notes, the Conditions, the Deed of Guarantee, the Subscription Agreement and the Account Charge
“Noteholders”	the persons in whose names a Note are registered, and each a “Noteholder”
“Notes”	the 20.00% guaranteed secured notes in the combined amount of up to a maximum principal amount of USD80,000,000 (equivalent to approximately HK\$620,000,000) to be issued by the Company and guaranteed by the Guarantor, consisting of the First Tranche Notes and the Second Tranche Notes
“Notes Issue”	the issue of the Notes by the Company

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## DEFINITIONS

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“Option Deed”	the option deed to be entered into between the Lender and the Guarantor before the date of the SGM, pursuant to which, the Lender shall have a right to sell (but not as obligation) to the Guarantor all or any of Shares which may be obtained by the Subscriber under the Share Settlement and transferred to (or directly issued by the Company to) the Lender as part payment of interest accrued and payable by the Subscriber to the Lender pursuant to the Facility Agreement
“PRC”	The People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this circular
“Principal Subsidiary”	any subsidiary of the Company whose revenue (consolidated in the case of a subsidiary which itself has subsidiaries) as shown by its latest audited financial statement is at least USD1,000,000
“RMB”	Renminbi, the lawful currency of the PRC
“Second Tranche Closing Date”	a date no later than six months from the First Tranche Closing Date to be agreed between the parties to the Subscription Agreement
“Second Tranche Notes”	the second tranche of Notes up to a maximum principal amount of USD40,000,000
“Security”	a first fixed charge over all of the Company’s present and future right, title and interest in or to the Interest Reserve Account and all amounts (including interest) standing to the credit of the Interest Reserve Account, held pursuant to the terms of the Account Charge
“SFO”	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened and held to consider and approve the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate
“Share Settlement”	the Shares which may be allotted and issued to the Subscriber as part of the interest payment in lieu of cash under the Notes pursuant to the terms of the Notes
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	holder(s) of the Share(s)

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## DEFINITIONS

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“Specific Mandate”	a specific mandate to allot, issue or otherwise deal in additional Shares to be sought from the Independent Shareholders to satisfy the allotment and issue of the Shares pursuant to the conditions of the Notes
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Sunny Glory Investments Limited, a company incorporated in the British Virgin Islands
“Subscription Agreement”	the agreement dated 18 September 2013 entered into between the Company, the Subscriber and the Guarantor in relation to the subscription by the Subscriber of the Notes in the principal amount of not more than USD80,000,000
“Two-Year Period”	if the Second Tranche Notes are not issued, the period from and including the First Tranche Closing Date to and including the date which is two (2) years after the First Tranche Closing Date; and if the Second Tranche Notes are issued, the period from and including the Second Tranche Closing Date to and including the date which is two (2) years after the Second Tranche Closing Date
“USD”	United States dollar(s), the lawful currency of the United States
“%”	per cent

*For the purpose of this circular, translations of USD into Hong Kong dollars or vice versa have been calculated by using an exchange rate of USD1.00 equal to HK\$7.75. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.*



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LETTER FROM THE BOARD

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**CHEUNG WO INTERNATIONAL HOLDINGS LIMITED**  
**長和國際實業集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00009)**

*Executive Directors:*

Mr. Jin Lei (*Chairman*)  
Ms. Law Kee, Alice (*Chief Executive Officer*)  
Mr. Hui Wai Lee, Willy

*Independent non-executive Directors:*

Mr. Tsui Pui Hung  
Mr. Tang Ping Sum  
Mr. Chu To, Jonathan

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Room 4101  
41st Floor  
The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

25 October 2013

*To the Shareholders*

Dear Shareholder(s),

**CONNECTED TRANSACTION**  
**ISSUE OF USD80 MILLION 20% GUARANTEED**  
**SECURED NOTES DUE 2016**

**INTRODUCTION**

Reference is made to the Announcement in relation to the entering into the Subscription Agreement by the Company, the Subscriber and the Guarantor in respect of the issue of the Notes.

**SUBSCRIPTION AGREEMENT**

**Date:** 18 September 2013 (after trading hours)

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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### **Parties to the Subscription Agreement**

- (a) The Company as the issuer;
- (b) The Guarantor as the guarantor to the Company; and
- (c) The Subscriber as the initial subscriber to the Notes.

As at the Latest Practicable Date, the Guarantor is interested in 766,016,300 Shares, representing approximately 68.91% of the issued share capital of the Company. The Guarantor is a substantial shareholder (as defined under the Listing Rules) of the Company and, therefore, a connected person of the Company.

Save for the entering into of the Subscription Agreement, the Facility Agreement, the advance of the SG Loan (as defined below) by a subsidiary of the Subscriber and the transactions contemplated under these agreements and to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. Based on the information provided by the Subscriber, subject to fulfillment of certain conditions precedent, a subsidiary of the Subscriber will, through its related party, advance a loan (the "SG Loan") to a company in the PRC (the "SG Loan Borrower"), the equity interest of which is non-wholly owned by the Guarantor. According to the information provided by the Guarantor, the proposed term of the SG Loan will be three years with an option to renew for one year. The maximum loan amount of USD120,000,000 (equivalent to approximately HK\$930,000,000) will be advanced at a proposed interest rate of not less than 20% per annum. The SG Loan will be secured by way of charge of certain properties owned by the companies non-wholly owned by the Guarantor. Although the Note Issue and the SG Loan are not conditional upon each other, according to the Guarantor, the loan under the Facility Agreement will only be drawn down by the Subscriber and hence the issue of the Note will be completed after the SG Loan is received by the SG Loan Borrower, such that the securities under the SG Loan will be received by the lender of the SG Loan before the Note is issued. However, the terms of the SG Loan have not been finalized and are still subject to further negotiations between the Guarantor and the Subscriber.

Based on the information available to the Directors, the Directors consider that the terms of the Notes are more favourable than the terms of the SG Loan.

### **The Notes to be issued**

Subject to the fulfillment of the conditions set out below, the Subscriber has agreed to subscribe for the First Tranche Notes in a principal amount of USD40,000,000 (equivalent to approximately HK\$310,000,000) on the First Tranche Closing Date and for the Second Tranche Notes up to a maximum principal amount of USD40,000,000 (equivalent to approximately HK\$310,000,000) on the Second Tranche Closing Date, both in the terms and conditions as set out in the Subscription Agreement. The Subscriber shall provide written notice to the Company of the principal amount of the Second Tranche Notes (if any) that it agrees to subscribe for at least 10 Business Days prior to the Second Tranche Closing Date.

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## LETTER FROM THE BOARD

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### Conditions Precedent for closing of the Subscription Agreement

Under the Subscription Agreement, the subscription of the First Tranche Notes is conditional upon, among other things:

- (a) the execution and delivery on or before First Tranche Closing Date of the other Note Documents in respect of the First Tranche Notes;
- (b) the delivery of the Subscriber's written confirmation that the drawdown of the first facility pursuant to the Facility Agreement has taken place;
- (c) the Subscriber and its affiliates having obtained all necessary internal and external approvals;
- (d) the passing of a resolution by the Independent Shareholders of the Company at the SGM to approve the transaction including the Notes Issue and issue of Shares pursuant to Conditions;
- (e) the delivery of a copy of (i) the constitutional documents of the Company; (ii) the board resolutions of the Company in relation to the Notes Issue; and (iii) power of attorney in respect of the execution of the Account Charge;
- (f) the opening of relevant bank accounts and entry into an onshore loan on terms reasonably satisfactory to the Subscriber;
- (g) completion of all steps, things and actions necessary (on or before the First Tranche Closing Date) in relation to the granting of a first priority fixed charge under the Account Charge;
- (h) the representations and warranties of the Company and the Guarantor in the Subscription Agreement being true, accurate and correct (in accordance with their respective terms in the Subscription Agreement);
- (i) the Company and the Guarantor having performed all of their respective obligations under the Subscription Agreement;
- (j) the delivery of a certificate confirming no material adverse change of the Group in relation to the Notes Issue, by the Guarantor and a duly authorised officer of the Company and a certificate of no default by a duly authorised officer of the Company;
- (k) the granting of the listing of, and permission to deal in, the Shares which may be issued pursuant to Conditions;
- (l) the delivery of documents by the Company to the Subscriber, including all consents or approvals required in relation to the issue of First Tranche Notes, several legal opinions relating to the Notes Issue and certain notices, confirmations or documents in relation to operations of subsidiaries of the Company;

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## LETTER FROM THE BOARD

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- (m) the completion of due diligence works in relation to the Company, other members of the Group and the Guarantor and the delivery of relevant due diligence reports; and
- (n) the delivery of a certificate by the Guarantor and a duly authorised officer of the Company confirming that the Convertible Bonds have been converted into Shares or redeemed so that the outstanding aggregate principal amount of the Convertible Bonds is equal or less than HK\$80,000,000.

The subscription and payment for the Second Tranche Notes is conditional upon, among other things:

- (i) the delivery of the Subscriber's written confirmation that the drawdown of the second facility pursuant to the Facility Agreement has taken place;
- (ii) the Subscriber and its affiliates having obtained all necessary internal and external approvals;
- (iii) the representations and warranties of the Company and the Guarantor in the Subscription Agreement being true, accurate and correct (in accordance with their respective terms in the Subscription Agreement);
- (iv) the Company and the Guarantor having performed all of their respective obligations under the Subscription Agreement;
- (v) the delivery of a certificate confirming no material adverse change of the Group in relation to the Notes Issue, by the Guarantor and a duly authorised officer of the Company and a certificate of no default by a duly authorised officer of the Company;
- (vi) the granting of the listing of, and permission to deal in, the Shares which may be issued pursuant to Conditions; and
- (vii) the delivery of copies of all consents or approvals required in relation to the issue of Second Tranche Notes.

If any of the conditions specified above have not been satisfied or waived by the Subscriber on or prior to the First Tranche Closing Date or the Second Tranche Closing Date (as the case may be), the Subscription Agreement shall terminate and be of no further effect and no party shall be under any liability to any other in respect of the Subscription Agreement, except that, other than by reason of the non-fulfillment of conditions by the Subscriber, the Company (failing whom the Guarantor) shall remain liable for breach of warranties and remain liable for the payment of all costs and expenses and already incurred or incurred in consequence of such termination.

### **Security and Guarantee to the Notes**

Pursuant to the Conditions, the Company shall maintain a cash balance standing to the credit of the Interest Reserve Account an amount equal to 15% per annum on the outstanding aggregate principal amount of the Notes for a period of six months.

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## LETTER FROM THE BOARD

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The Company will provide the Security for the Notes. The Notes will be secured by the Account Charge, pursuant to which, the Interest Reserve Account to be set up by the Company will be charged by the Company for the benefit of the Noteholders.

In addition, the Notes will also be guaranteed by the Guarantor by the Deed of Guarantee. The Account Charge and the Deed of Guarantee will be executed by the Company and the Guarantor, respectively, not later than the First Tranche Closing Date.

### **Other Principal terms of the Notes**

The other principal terms of the Notes are summarized below:

#### *Notes offered*

The Notes will mature on the Maturity Date, unless redeemed earlier pursuant to the terms as set out in the Subscription Agreement. The terms and conditions of the First Tranche Notes and the Second Tranche Notes are substantially the same.

#### *Issue price*

The Notes will be issued at 100% of their principal amount.

#### *Interest*

The Notes will bear interest from and including the date of issue of the Notes at a rate of 20.00% per annum, payable semi-annually in arrears on each Interest Payment Date. In the case that the Second Tranche Notes are issued, interest accrued on the First Tranche Notes from and including the First Tranche Closing Date to but excluding the Second Tranche Closing Date will be paid on the Second Tranche Closing Date. The interest rate was determined after arm's length negotiation between the parties. The interest shall be payable in the following manner:

- (a) 15% per annum payable in cash; and
- (b) 5% per annum payable either entirely in cash or entirely by the Share Settlement, whereby:
  - (i) if the Average Share Price is higher than the Minimum Issue Price, the relevant interest shall be satisfied entirely by the issue of Shares in accordance with the following formula:

$$\text{Total number of Shares to be issued} = \frac{\text{Amount of the relevant interest (in USD)}}{\text{Average Share Price (USD equivalent)}}$$

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## LETTER FROM THE BOARD

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Provided that if the aggregate number of Shares received by each Noteholder pursuant to the Conditions (and held at the relevant time) shall exceed 4.99% of the outstanding Shares at the relevant time or there will be less than 25% of issued share capital (fully diluted) held by the public as a result of issue of Shares pursuant to the Share Settlement, the remaining amount of interest shall be satisfied entirely by the payment of cash.

- (ii) if the Average Share Price is equal to or lower than the Minimum Issue Price, the relevant interest shall be satisfied entirely by the payment of cash.

Assuming (i) the Second Tranche Notes are issued on the date falling on the expiry of three months from the First Tranche Closing Date; (ii) the Average Share Price is higher than the Minimum Issue Price on all of the Interest Payment Dates and (iii) the Shares are issued at the Minimum Issue Price, a total of up to 118,140,244 Shares, representing approximately 10.63% of the issued share capital of the Company as at the Latest Practicable Date, may be issued for the Share Settlement. However if the Second Tranche Notes are issued on the date falling on the expiry of six months from the First Tranche Closing Date, a total of up to 122,865,854 Shares, representing approximately 11.05% of the issued share capital of the Company as at the Latest Practicable Date, may be issued for the Share Settlement. These Shares will be issued under the Specific Mandate to be sought at the SGM.

Pursuant to the Conditions, a Noteholder may request the Company to issue the Shares to be obtained under the Share Settlement to its nominees.

### *Minimum Issue Price*

The Minimum Issue Price of HK\$0.82 represents:

- (i) a premium of approximately 15.5% to the closing price of HK\$0.71 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 17.1% to the average closing price of approximately HK\$0.70 per Share for the last five trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 17.1% to the average closing price of approximately HK\$0.70 per Share for the last ten trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 8.9% to the closing price of HK\$0.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 40.1% to the unaudited net asset value of approximately HK\$1.37 per Share as at 30 June 2013 and a discount of approximately 54.2% over the audited net asset value of approximately HK\$1.79 per Share as at 31 December 2012.

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## LETTER FROM THE BOARD

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### *Ranking of the Notes and the Shares*

The Notes are secured by the Account Charge and guaranteed by the Guarantor by the Deed of Guarantee as set out above and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Notes will, save for such exceptions as may be provided by applicable legislation and subject to the Conditions of the Notes, at all times rank at least equally with all its respective other present and future unsecured and unsubordinated obligations.

The Shares to be issued under the Share Settlement shall rank pari passu with all the Shares then issued.

### *Transferability*

The Notes may be transferred in whole or in part upon the surrender of the certificate of the relevant Notes and submission of a form of transfer to the registrar.

### *Events of Default*

The events of default under the Notes include, among others:

- (1) default in payment of the principal of or any premium or interest on any of the Notes when due; or
- (2) default in the performance or compliance with any one of more of the Company's and the Guarantor's other obligations in the Notes or under the Deed of Guarantee which default is incapable of remedy or is not remedied within 10 days after notice of such default shall have been given to the Noteholders; or
- (3) any other present or future indebtedness of the Company or any of its subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like, or any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or the Company or any of its subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised if the aggregate amount of the aforesaid indebtedness equals or exceeds USD5,000,000; or
- (4) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Company or any of its Principal Subsidiaries which leads to a Material Adverse Effect; or

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## LETTER FROM THE BOARD

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- (5) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Company or any of its Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and which leads to a Material Adverse Effect; or
- (6) the Company or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company, or any of its Principal Subsidiaries; or
- (7) an order is made or an effective resolution passed for the winding-up or dissolution of the Company or any of its Principal Subsidiaries, or the Company ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Noteholders holding majority of the aggregate principal amount of all Notes then outstanding, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Company or another of its Principal Subsidiaries; or
- (8) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company, or any of its Principal Subsidiaries; or
- (9) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Company and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable is not taken, fulfilled or done; or
- (10) the Group ceases to carry on all or substantially all of its existing real estate business; or
- (11) it is or will become unlawful for the Company or the Guarantor to perform or comply with its obligations under the Notes; or
- (12) the Deed of Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or



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## LETTER FROM THE BOARD

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- (13) the auditors of any member of the Group qualify the audited annual consolidated financial statements of such Group member; or
- (14) a suspension or a material limitation in trading in the Company's securities on the Stock Exchange and/or any other stock exchange on which the Company's securities are traded for 10 consecutive trading days (other than a suspension of trading as a result of the issue of the announcement in relation to the Notes Issue in which case the suspension shall be for 30 consecutive trading days).

If an event of default occurs, the Majority Noteholders at their discretion may give five Business Days' notice to the Company that the Notes are, and they shall immediately become, due and repayable at an amount equal to the sum of (i) 100% of the principal amount outstanding of the Notes to be repaid, (ii) interest accrued but unpaid to the date of repayment and (iii) if the repayment date falls within the Two-Year Period, an additional amount equal to the IRR Amount.

### *Undertakings*

So long as the Notes remain outstanding and unless with the prior written consent of the Majority Noteholders, Company shall not, among other things:

1. use the proceeds from the Notes Issue other than in accordance with the provisions in the Conditions;
2. enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any asset except those (i) made in the ordinary course of business; (ii) in respect of certain residential projects only of the Company where each such disposal (or series of disposals) to a single person or entity constitutes no more than a certain percentage of the GFA of such residential projects; or (iii) in exchange for other assets comparable or superior as to type, value and quality;
3. enter into any amalgamation, demerger, merger or corporate reconstruction, save for internal restructuring of the Group;
4. make any substantial change to its principal business;
5. acquire any assets, company or shares or securities or a business or undertaking (or, in each case, any interest in any of them) except for acquisitions made in, and carrying out, the ordinary course of business of the Group, and certain assets as specified in the Conditions;
6. enter into, invest in or acquire any shares, stocks, securities or other interest in any joint venture or transfer any assets or lend to or guarantee or give an indemnity for obligations of a joint venture except for joint ventures for the purposes as specified in the Conditions;

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## LETTER FROM THE BOARD

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7. issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any shares or securities of the same class as the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase Shares in each case at a price per Share which is less than 80% of the current market price on the date of the first public announcement of the terms of such issue, sale or grant;
8. declare or pay any dividends or make any distributions or return of capital to its shareholders unless the ratio of operating profit to interest expense has reached the level as prescribed in the Conditions; and
9. enter into any arrangement or transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with the Guarantor, any directors of the Company or any connected person of the Company or any entity controlled by such persons, except for (i) any transaction contemplated by any Note Document; (ii) any director service contract; (iii) from the date that is one year from the Second Tranche Closing Date (or if the Second Tranche Notes are not issued, the First Tranche Closing Date), any issue, sale, disposal or grant of Shares to the Guarantor or his associates or connected persons subject to the terms of the Conditions; (iv) any grant of options to the directors or employees of the Company or its connected persons in accordance with the share option scheme of the Company adopted on 2 September 2013; or (v) from the date that is one year from the Second Tranche Closing Date (or if the Second Tranche Notes are not issued, the First Tranche Closing Date), shareholder loan arrangements with the Guarantor or his associates or connected persons of the Company without interest.

### *Maturity and Redemption*

The Notes will be redeemed at 100% of their principal amount on the Maturity Date, subject to the Company's right to extend the maturity of the Notes by one year by prior written notice to the Noteholders of at least 180 days prior to the Maturity Date.

At any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Noteholders, the Company may redeem all, but not some only, of the Notes at their Early Redemption Amount on the redemption date specified by the Company.

The Company will, at the option of any Noteholder, redeem such Note at its Early Redemption Amount on the Change of Control Redemption Date upon the occurrence of a Change of Control.

### **REASONS FOR AND BENEFITS OF THE ISSUE OF THE NOTES**

The Directors consider that the Notes Issue represents a good opportunity for the Group to raise additional funds to finance the construction and operation of its existing projects and to accumulate additional land bank or acquire real estate related projects when opportunities arise.

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## LETTER FROM THE BOARD

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The Group has been developing land sized 325,989 square meters locating in Jiuhua Economic Zone, Xiangtan, Hunan Province, the PRC into a five-star hotel and low-density residential units with the project name “Oriental Venice”. The foundation work of the five-star hotel has been completed and the soft launch of the hotel is expected to be kicked off by the end of 2014. The residential development is divided into two phases. The first phase targets the affluent class of Hunan Province. Pre-sale of the property is expected to start by mid 2014. The Notes Issue will provide the project with the necessary funds. The Directors consider that the success of Oriental Venice will bring substantial economic benefits to the Group.

In addition, the property market in the PRC showed a prominent growth in recent years. According to National Bureau of Statistics of China, the total amount of investment in property sector in the PRC for the first six months of 2013 rose by 20.3% to RMB3.68 trillion as compared to the same period in 2012. The Directors are optimistic about the PRC property sector and consider that the Notes Issue would provide the Group with additional capital to develop its business in the PRC property sector.

The Directors (excluding the independent non-executive Directors who will express their views in the circular to the Shareholders) are of the opinion that the terms of the Subscription Agreement, which were arrived at after arm’s length negotiation between the Company and the Subscriber are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **USE OF PROCEEDS**

Assuming the aggregate principal amount of the Notes is USD80,000,000 (equivalent to approximately HK\$620,000,000), the net proceeds from the issue of the Notes is expected to be not more than USD79,419,000 (equivalent to approximately HK\$615,497,000).

Pursuant to the Conditions and assuming the aggregate principal amount of the Notes is USD80,000,000, the Company shall apply at least USD48,000,000 (equivalent to approximately HK\$372,000,000) to its residential development projects in Xiangtan, Hunan Province, the PRC while the remaining proceeds, that is a maximum of USD32,000,000 (equivalent to approximately HK\$248,000,000), shall be used as general working capital or for the acquisitions of real estate assets. As at the Latest Practicable Date, the Company has not identified any target for acquisitions of real estate assets.

### **INFORMATION RELATING TO THE PARTIES IN CONNECTION WITH THE NOTES ISSUE**

#### **Information of the Company**

The Company is principally engaged in the rental of property, property and hotel development and related business, film production, film processing and related business.

#### **Information of the Guarantor**

As at the Latest Practicable Date, the Guarantor is interested in 766,016,300 Shares, representing approximately 68.91% of the issued share capital of the Company. The Guarantor is a substantial shareholder (as defined under the Listing Rules) of the Company and, therefore, a connected person of the Company.

## LETTER FROM THE BOARD

### Information of the Subscriber

The Subscriber is a company incorporated in British Virgin Islands with limited liability. It is not an investment fund and its principal business is investment holding and its subsidiaries invest in property development projects in the PRC.

### Information of the Lender

The Lender is a company incorporated in British Virgin Islands with limited liability. It is indirectly owned by two investment funds both principally engaged in investment in real estate related assets. Based on the information available and to the best knowledge of the Directors, the Lender is third party independent of the Company and its connected persons. To the best of the knowledge of the Lender, other than pursuant to or arising from the Facility Agreement and the security and other ancillary documents entered into or to be entered into between the Lender and the Subscriber and other relevant parties thereto (where applicable) relating to the loan facility, there is no connection between the Lender and the Subscriber.

### EFFECT ON SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company had 1,111,603,816 Shares in issue. The outstanding aggregate principal amount of the Convertible Bonds was in an amount of HK\$70,640,110 and the Company has adopted a share option scheme on 2 September 2013. Save as disclosed herein, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carried rights to subscribe for or convertible into Shares.

The shareholding structure of the Company as at the Latest Practicable Date and the effect on the shareholding structure of the Company upon (i) full conversion of Convertible Bonds; (ii) the allotment and issue of all Shares under the Share Settlement and (iii) the exercise of all options under the Option Deed by the Lender to sell all Shares under the Share Settlement to the Guarantor are set out as below:

Shareholders	As at the Latest Practicable Date		After full conversion of Convertible Bonds (Note 3)		After allotment and issue of all Shares under the Share Settlement (Assuming the Second Tranche Closing Date falls on 3rd month after the First Tranche Closing Date)		After allotment and issue of all Shares under the Share Settlement (Assuming the Second Tranche Closing Date falls on 6th month after the First Tranche Closing Date)		After the exercise of all options by the Lender under the Option Deed (Note 5)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The Guarantor (in his personal capacity) (Notes 1 and 5)	-	-	-	-	-	-	-	-	122,865,854	8.78
Full Dragon Group Limited (Note 1)	766,016,300	68.91	766,016,300	60.04	766,016,300	54.95	766,016,300	54.76	766,016,300	54.76
Alpha Harbour Limited (Notes 1 and 2)	-	-	55,813,953	4.37	55,813,953	4.00	55,813,953	3.99	55,813,953	3.99
Classic Excel Investments Limited (Notes 1 and 2)	-	-	55,813,953	4.37	55,813,953	4.00	55,813,953	3.99	55,813,953	3.99
Digital Skyline Limited (Notes 1 and 2)	-	-	52,651,418	4.13	52,651,418	3.78	52,651,418	3.76	52,651,418	3.76
The Lender (Note 4 and 5)	-	-	-	-	118,140,244	8.47	122,865,854	8.78	-	-
Other Shareholders	345,587,516	31.09	345,587,516	27.09	345,587,516	24.80	345,587,516	24.72	345,587,516	24.72
<b>Total</b>	<b>1,111,603,816</b>	<b>100</b>	<b>1,275,883,140</b>	<b>100</b>	<b>1,394,023,384</b>	<b>100</b>	<b>1,398,748,994</b>	<b>100</b>	<b>1,398,748,994</b>	<b>100</b>

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## LETTER FROM THE BOARD

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*Notes:*

1. The entire issued share capital of each of Full Dragon Group Limited, Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited is owned by the Guarantor, the Guarantor is deemed to have interest in the Shares held by these companies.
2. The Shares held by each of Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited represent 55,813,953, 55,813,953 and 52,651,418 Shares to be allotted and issued upon the exercise of conversion rights attaching to the Convertible Bonds.
3. The shareholding structure sets out in this column is for illustration purposes only based on the outstanding amount of the Convertible Bonds of HK\$70,640,110 as at the Latest Practicable Date. If the public float of the Company cannot be maintained at 25% or above after conversion of the Convertible Bonds, no converted Shares will be issued in accordance with the conditions of the Convertible Bonds.
4. The shareholding structure sets out in this row is for illustration purposes only based on the maximum number of Shares that may be issued under the Share Settlement at the Minimum Issue Price and assuming the Second Tranche Closing Date falls on (i) the third month or (ii) the sixth month after the First Tranche Closing Date.
5. Assuming maximum number of Shares issued under the Share Settlement are sold or transferred to the Guarantor pursuant to the Option Deed. However, if the public float of the Company will fall below 25% as a result of the exercise of a put option under the Option Deed, the Lender has the right to, instead of requiring the Guarantor to purchase the relevant Shares, sell the Shares to any third party or in the open market. The terms of the Option Deed have not been finalized and will be executed by the Lender and the Guarantor before the date of SGM.

### FUND RAISING EXERCISE OF THE COMPANY DURING THE PAST 12 MONTHS

Date of announcement	Event	Approximate net proceeds	Intended use of proceeds	Actual use of proceeds
24 May 2013	Issue of Convertible Bonds	HK\$200,000,000 (after deducting related expenses and the amount for settlement of shareholder's loan)	For additional funding to accumulate land bank and as general working capital of the Company	HK\$126,000,000 as additional capital for the Company's subsidiary in Xiangtan, Hunan Province, the PRC and the remaining balance is held at financial institution.
28 February 2013	Placing of new Shares under general mandate	Approximately HK\$28 million (after deducting related placing commissions and other related expenses)	General working capital	Approximately HK\$12,000,000 as general working capital and the remaining balance is held at financial institution.

Save as disclosed above, the Company has not undertaken any equity fund raising exercise in the 12 months immediately preceding the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Guarantor is interested in 766,016,300 Shares, representing approximately 68.91% of the issued share capital of the Company. The Guarantor is a substantial shareholder (as defined under the Listing Rules) of the Company, and as such, the Guarantor is a connected person of the Company. The Company has been informed by the Guarantor that the Facility Agreement has been entered into between, among others, the Subscriber, the Lender and the Guarantor, pursuant to which, the Lender has agreed to provide a loan facility in an amount of not more than USD80,000,000 (equivalent to approximately HK\$620,000,000) to the Subscriber and the Guarantor has agreed to provide guarantee for the performance of the obligations of the Subscriber under the Facility Agreement. Based on the information available and to the best knowledge of the Directors, the Lender is third party independent of the Company and its connected persons. The Facility Agreement contains a term allowing the delivery of Shares by the Subscriber to the Lender to satisfy part of the interest payable by the Subscriber to the Lender under the Facility Agreement, such provision is substantially similar to the term relating to the Share Settlement under the Subscription Agreement as described in “Other Principal terms of the Notes – Interest” in this Circular.

The Subscription Agreement is subject to various conditions precedent, which shall include, inter alia, the Subscriber’s written confirmation(s) that the drawdown(s) of the relevant facility pursuant to the Facility Agreement has taken place. The Company has also been informed by the Guarantor that the Option Deed is being discussed and when agreed, will be entered into between the Guarantor and the Lender before the date of the SGM, pursuant to which the Lender shall have a right (but not an obligation) to sell to the Guarantor all or any of the Shares which may be obtained by the Subscriber under the Share Settlement and transferred to (or directly issued by the Company to) the Lender pursuant to the Facility Agreement, at a price to be calculated based on the highest Average Share Price of the Shares held by the Lender (based on the Average Share Price applicable to the relevant Shares when the relevant Shares are issued), in US Dollars calculated at an exchange rate to be agreed. The Option Deed will contain a term that if the Guarantor notifies the Lender that as a result of the exercise of a put option under the Option Deed, mandatory offer obligation pursuant to the Hong Kong Codes on Takeovers and Mergers will be triggered or less than 25% of the total issued share capital of the Company will be held by the public, or if the voting rights of the Guarantor and its parties acting in concert shall fall below 50%, the Lender will have the right to sell such Shares to any third party or in the open market and recover the shortfall (if any) from the Guarantor. If any Shares are disposed of or transferred to third party by the Lender at a price and such price for disposal or transfer is less than the lowest Average Share Price of such Shares held by the Lender obtained from the Facility Agreement as part payment of interest thereunder, the Guarantor shall pay the Lender the difference between lowest Average Share Price per Share less the actual selling price per Share. In the event that the Average Share Price for the Shares obtained from the Facility Agreement is at various values, the Lender shall sell such Shares obtained at the lowest Average Share Price and thereafter in ascending value. The purpose of the Option Deed is to ensure that the total amount of interest received by the Lender, together with all proceeds from the disposal of the Shares transferred to (or directly issued by the Company to) the Lender pursuant to the Facility Agreement will not be less than interest receivable by the Lender had the entire interest payable had been settled in cash. However, the terms of the Option Deed have not been finalized and are still subject to further negotiations between the Lender and the Guarantor.

The Lender is a company incorporated in British Virgin Islands with limited liability. Its principal business is investment in real estate related assets. By providing loan facility to the Subscriber under the Facility Agreement, the Lender’s investment will be secured by additional security provided or to be provided

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## **LETTER FROM THE BOARD**

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by the Subscriber group of companies and other relevant parties thereto, which may not be available under the Notes. To the best of the knowledge of the Lender, other than pursuant to or arising from the Facility Agreement and the security and other ancillary documents entered into or to be entered into between the Lender and the Subscriber and other relevant parties thereto (where applicable) relating to the loan facility, there is no connection between the Lender and the Subscriber.

In view of the aforesaid, the Subscription Agreement and the transactions contemplated thereunder constitute a connected transaction on the part of the Company under the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements.

Accordingly, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the Notes Issue and the grant of the Specific Mandate, are subject to the approval by the Independent Shareholders at the SGM by way of a poll. The Guarantor, the Subscriber and their respective associates are required to abstain from voting for the relevant resolution to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM. To the best of the Directors' information, belief and knowledge, none of the Directors have a material interest in relation to the Subscription Agreement and the transaction contemplated thereunder.

### **APPLICATION FOR LISTING**

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be allotted and issued pursuant to conditions of the Notes for payment of interest thereunder. No application will be made for the listing of the Notes on the Stock Exchange.

### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprises Mr. Tsui Pui Hung, Mr. Tang Ping Sum, Mr. Chu To, Jonathan, all being the independent non-executive Directors. It has been established to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription Agreement and the transactions contemplated thereunder.

Fulbright Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder.

### **SGM**

The Company will convene the SGM at Room 4101, 41st Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 11 November 2013 at 11:00 a.m. at which ordinary resolution will be proposed for the purpose of considering and, if thought fit, to approve, among other matters (if any), the Subscription Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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A notice convening the SGM is set out on pages 51 to 53 of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment thereof should you so wish.

The ordinary resolution to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the results of the SGM.

### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Fulbright Capital, considers that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Subscription Agreement and the transactions contemplated thereunder. The text of the letter from the Independent Board Committee is set out on pages 23 to 24 of this circular.

### ADDITIONAL INFORMATION

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

Yours faithfully,

By Order of the Board

**CHEUNG WO INTERNATIONAL HOLDINGS LIMITED**

**JIN LEI**

*Chairman*



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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**CHEUNG WO INTERNATIONAL HOLDINGS LIMITED**  
**長和國際實業集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00009)**

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Room 4101  
41st Floor  
The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

25 October 2013

**CONNECTED TRANSACTION**  
**ISSUE OF USD80 MILLION 20% GUARANTEED SECURED NOTES DUE 2016**

We refer to the circular (the “**Circular**”) of Cheung Wo International Holdings Limited dated 25 October 2013, of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As the independent non-executive Directors who are independent of the parties to the Subscription Agreement and the transactions contemplated thereunder, we have been appointed to form this Independent Board Committee to advise you as to whether, in our opinion, the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Shareholders as a whole are concerned.

Fulbright Capital Limited (“**Fulbright Capital**”) has been appointed as the Independent Financial Adviser to advise this Independent Board Committee on the fairness and reasonableness of the terms of the Subscription Agreement and the transactions contemplated thereunder. We wish to draw your attention to the letter from the Board, as set out on pages 7 to 22 of the Circular, and the letter of advice from Fulbright Capital, as set out on pages 25 to 45 of the Circular, both of which provide details of the Subscription Agreement and the transactions contemplated thereunder.

\* For identification purpose only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the advice rendered by Fulbright Capital and the principal factors and reasons taken into consideration by it in arriving its advice, we are of the opinion that the terms of the Subscription Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the terms of the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the

**Independent Board Committee of  
Cheung Wo International Holdings Limited**

**Tsui Pui Hung,**

**Tang Ping Sum,**

**Chu To, Jonathan**

*Independent non-executive Directors*

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## LETTER FROM FULBRIGHT CAPITAL

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*Set out below is the full text of a letter received from Fulbright Capital setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder, for the purpose of inclusion in this circular.*



26/F., LHT Tower,  
9 Queen's Road Central,  
Hong Kong

25 October 2013

*To: the Independent Board Committee and  
the Independent Shareholders of Cheung Wo International Holdings Limited*

Dear Sirs,

### **CONNECTED TRANSACTION ISSUE OF USD80 MILLION 20% GUARANTEED SECURED NOTES DUE 2016**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated thereunder, particulars of which are set out in the section headed "Letter from the Board" (the "**Board Letter**") contained in the circular dated 25 October 2013 issued by the Company (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.

Reference is made to the Company's announcement dated 18 September 2013 in relation to, amongst other matters, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the Notes Issue and the grant of the Specific Mandate to allot, issue or otherwise deal in the Shares, which form part of the interest payable under the Notes, are set out in the Board Letter. Our role as the Independent Financial Adviser is to give our opinion as to whether the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

As at the Latest Practicable Date, the Guarantor is interested in 766,016,300 Shares, representing approximately 68.91% of the issued share capital of the Company. The Guarantor is a substantial shareholder (as defined under the Listing Rules) of the Company and, therefore, a connected person of the Company. The Company has been informed by the Guarantor that the Facility Agreement has been entered into between, among others, the Subscriber, the Lender and the Guarantor, pursuant to which, the Lender has agreed to provide a loan facility in an amount of not more than USD80,000,000 (equivalent to approximately HK\$620,000,000) to the Subscriber and the Guarantor has agreed to provide guarantee for the performance of the obligations of the Subscriber under the Facility Agreement.

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## LETTER FROM FULBRIGHT CAPITAL

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The Subscription Agreement is subject to various conditions precedent which include, inter alia, the Subscriber's written confirmation(s) that the drawdown(s) of the relevant loan facility pursuant to the Facility Agreement has taken place. The Company has also been informed by the Guarantor that the Option Deed is being discussed and when agreed, will be entered into between the Guarantor and the Lender before the date of the SGM, pursuant to which the Lender shall have a right (but not an obligation) to sell to the Guarantor all or any of the Shares which may be obtained by the Subscriber under the Share Settlement and transferred to (or directly issued by the Company to) the Lender pursuant to the Facility Agreement, at a price to be calculated based on the highest Average Share Price of the Shares held by the Lender (based on the Average Share Price applicable to the relevant Shares when the relevant Shares are issued), in US Dollars calculated at an exchange rate to be agreed. The Option Deed will contain a term that if the Guarantor notifies the Lender that as a result of the exercise of a put option under the Option Deed, mandatory offer obligation pursuant to the Hong Kong Codes on Takeovers and Mergers will be triggered or less than 25% of the total issued share capital of the Company will be held by the public, or if the voting rights of the Guarantor and its parties acting in concert shall fall below 50%, the Lender will have the right to sell such Shares to any third party or in the open market and recover the shortfall (if any) from the Guarantor. If any Shares are disposed of or transferred to third party by the Lender at a price and such price for disposal or transfer is less than the lowest Average Share Price of such Shares held by the Lender obtained from the Facility Agreement as part payment of interest thereunder, the Guarantor shall pay the Lender the difference between lowest Average Share Price per Share less the actual selling price per Share. In the event that the Average Share Price for the Shares obtained from the Facility Agreement is at various values, the Lender shall sell such Shares obtained at the lowest Average Share Price and thereafter in ascending value. However, the terms of the Option Deed have not been finalized and are still subject to further negotiations between the Lender and the Guarantor.

Based on the information provided by the Subscriber, subject to fulfillment of certain conditions precedent, a subsidiary of the Subscriber will, through its related party, advance a loan to a company in the PRC, the equity interest of which is non-wholly owned by the Guarantor pursuant to the SG Loan. However, the terms of the SG Loan have not been finalized and are still subject to further negotiations between the Guarantor and the Subscriber.

Further details of the Facility Agreement, the Option Deed and the SG Loan are set out in the sections headed "Subscription Agreement" and "Listing Rules Implications" of the Board Letter. In view of the aforesaid, the Subscription Agreement and the transactions contemplated thereunder constitute a connected transaction on the part of the Company and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Accordingly, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the Notes Issue and the grant of the Specific Mandate for the Shares which may fall to be allotted and issued as part of the interest payable under the Notes, are subject to the approval by the Independent Shareholders at the SGM by way of a poll. The Guarantor, the Subscriber and their respective associates are required to abstain from voting for the relevant resolution at the SGM.

An Independent Board Committee comprising Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan (all being independent non-executive Directors) has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription Agreement and the transaction contemplated thereunder. We, Fulbright Capital Limited, have been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this respect.

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## LETTER FROM FULBRIGHT CAPITAL

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### **BASIS OF OUR ADVICE**

In formulating our advice and recommendation 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 and the management of the Company. We have assumed that all information and representations provided to us by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to 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 enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant 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 and the management of the Company, which have been provided to us. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

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

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement and the transactions contemplated thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation in relation to the terms of the Subscription Agreement, we have considered the following principal factors and reasons:

(1) **Information of the Group**

(a) *Financial Review*

The Group is principally engaged in property and hotel development and investment in the PRC as well as film production and related business. Tabularized below is a summary of the financial performance of the Group as extracted from the interim report of the Company for the six months ended 30 June 2013 (the “**IR 2013**”) and the annual report of the Company for the year ended 31 December 2012 (the “**AR 2012**”):

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**LETTER FROM FULBRIGHT CAPITAL**

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<b>Consolidated Income Statement</b>	<b>For the six months ended 30 June 2013</b>	<b>For the six months ended 30 June 2012</b>	<b>For the year ended 31 December 2012</b>	<b>For the year ended 31 December 2011</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue	14.4	11.0	34.8	54.5
Gross profit	11.1	3.4	(6.1)	26.9
Profit/(loss) for the period/year	(8.2)	(23.9)	(17.3)	57.8

As depicted by the above table, the Group recorded a turnover of approximately HK\$34.8 million for the year ended 31 December 2012, representing a decrease of approximately 36% as compared to the prior financial year. With reference to the AR 2012, turnover from film production and distribution, and film processing businesses accounted for 60.0% of the total turnover (as shown in the following segment table), the decrease in turnover was mainly contributed to the insufficient contribution from both film production and processing to meet the cost outlay. The Group recorded a loss of approximately HK\$17.3 million as compared to a profit of approximately HK\$57.8 million in the prior financial year, and such loss was resulting from (i) decrease in turnover; (ii) increase in cost of sales; (iii) absence of the gain on property disposal which was approximately HK\$41.3 million for the year ended 31 December 2011; and (iv) absence of the valuation gain on the investment property recorded for the year ended 31 December 2011.

For the six months ended 30 June 2013, the turnover of the Group was approximately HK\$14.4 million, an increase of approximately 31% as compared to the turnover of approximately HK\$11.0 million for the six months ended 30 June 2012. With reference to the IR 2013, the aforesaid increase in turnover was mainly contributed from the property rental business, which achieved a 100% occupancy rate of the property and held long-term tenancies. However, the Group recorded a loss of approximately HK\$8.2 million for the six months ended 30 June 2013, which is mainly due to the unsatisfactorily performance of the film business segment that recorded a loss of HK\$6.3 million (as shown in the following segment table). As compared to the loss for the six months ended 30 June 2012 of approximately HK\$23.9 million, the Group recorded a decrease in loss for the six months ended 30 June 2013. Such drop in loss was mainly attributable to (i) increase in turnover of the property rental business; and (ii) absence of impairment loss on film production which was approximately HK\$15.0 million for the six month ended 30 June 2012. Although the new property development projects commenced, it is still at an early stage of construction during the first half of 2013 and therefore did not contribute meaningful profits.

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**LETTER FROM FULBRIGHT CAPITAL**

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Segment by revenue and results	For the six months ended 30 June 2013		For the six months ended 30 June 2012		For the year ended 31 December 2012		For the year ended 31 December 2011	
	HK\$		HK\$		HK\$		HK\$	
	million	%	million	%	million	%	million	%
(i) External revenue								
Property	10.5	73%	4.1	37%	13.9	40%	16.5	30%
Film distribution and processing	3.9	27%	6.9	63%	20.9	60%	38.0	70%
<b>Subtotal</b>	<b>14.4</b>	<b>100%</b>	<b>11.0</b>	<b>100%</b>	<b>34.8</b>	<b>100%</b>	<b>54.5</b>	<b>100%</b>
(ii) Segment results								
Property	5.5		7.1		10.6		7.9	
Film distribution and processing	(6.3)		(22.2)		(33.9)		(0.4)	
Elimination	-		(0.1)		-		-	
<b>Subtotal</b>	<b>(0.8)</b>		<b>(15.2)</b>		<b>(23.3)</b>		<b>7.5</b>	

Based on the above revenue segment table, the proportion of the revenue derived from the property business has increased from 30% for the year ended 2011 to 73% for the six months ended 30 June 2013, whilst the film business has been substantially dropped from 70% for the year ended 2011 to 27% for the six months ended 30 June 2013. Moreover, as shown in the above segment results table, the property business has been generating profits for the Group, whilst the film business recorded a continuous loss in each of the above periods. As advised by the Directors, in view of the downturn of the Group's film business, the Group will continue to focus on its property business in the future which will bring economic and financial benefits to the Group.

As stated in the IR 2013, the Group had bank balance and cash of approximately HK\$169.8 million as at 30 June 2013. The increase in bank balance and cash was mainly due to the issue of convertible bonds on 24 May 2013, raised approximately HK\$200 million net proceeds for capitalizing the Group's subsidiary in Xiangtan, accumulating further land banks and applying as general working capital.

**(b) Business Focus**

The Group, after acquired the entire interest of Hunan Jiuhua International City Development Construction Company Limited in 2011, has started to develop a piece of land sized 325,989 square meters which was located in Jiuhua Economic Zone, Xiangtan, Hunan Province, the PRC with plan for the development and construction of "Oriental Venice" project in building low-density residential units and a five-star hotel. Based on the Board Letter, the foundation work of the five-star hotel has been completed and the soft launch of the hotel is

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## LETTER FROM FULBRIGHT CAPITAL

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expected to be kicked off by the end of 2014. The residential development is divided into two phases. The first phase targets the affluent class of Hunan Province. Pre-sale of the property is expected to start by mid 2014. The Notes Issue will provide the project with the necessary funds. The Directors consider that the success of “Oriental Venice” project will bring substantial economic benefits to the Group.

As set out in the Board letter, the property market in the PRC showed a prominent growth in recent years. According to National Bureau of Statistics of China, the total amount of investment in property sector in the PRC for the first six months of 2013 rose by 20.3% to RMB3.68 trillion as compared to the same period in 2012. The Directors are optimistic about the PRC property sector and consider that the Notes Issue would provide the Group with additional capital to develop its business in the PRC property sector. In addition, with reference to the National Bureau of Statistics of China, the average per capita household disposable income for city dwellers in 2012 rose by approximately 10% to around RMB25,000 as compared to the previous year. Higher household income has raised the purchasing power of people in the PRC. It would likely contribute an increase in demand for better living environment and shopping arcades. It is stated that the PRC urbanization rate (i.e the proportion of the population residing in urban areas) rose from 47.0% in 2008 to 52.6% in 2012. Increases in the urban population of the PRC will likely result in increases in demand for residential properties. Furthermore, the property development enterprises are generally experienced a growth in contracted sales of commodity housing in the PRC for the first six months in 2013, as stated by the National Bureau of Statistics of China, contracted sales of commodity housing for the first half of 2013 rose by approximately 46% to RMB2.82 trillion as compared to the same period in 2012. These findings align with Director’s view on the PRC property sector.

Following the Group’s financing by way of (i) placing of new shares for the net proceeds of HK\$28 million in February 2013 and (ii) issuance of the convertible bonds for the net proceeds of HK\$200 million in May 2013, the Group is continuing to focus on the development of “Oriental Venice” project. As advised by the Directors, the Group has utilized approximately HK\$126 million from the financing of such convertible bonds into the residential units of “Oriental Venice” project as at the Latest Practicable Date. The outstanding amount for the operation and construction of the first phase residential units of “Oriental Venice” project before the development units of the first phase can be pre-sold and generate funding for its development will be satisfied by the Notes Issue. In addition, the Directors consider that the future cash flow to be generated from pre-sale of the residential units of “Oriental Venice” project or other possible means of financing activities (if necessary) are sufficient to complete the whole residential project of “Oriental Venice” project.

**(c) *Competitive advantages of “Oriental Venice” project***

The “Oriental Venice” project is situated in Xiangtan. Xiangtan is a prefecture-level city in central Hunan province, where is only 40 kilometer away from Changsha or Zhuzhou, in which three cities form the CZT city cluster. The Government of Hunan Province announced in the “2012 (No.16) Development Plan on Hunan’s Changsha-Zhuzhou-Xingtian City Cluster in the 12th Five-Year Plan” (湘政辦發[2012]16號《湖南省「十二五」環長株潭城市群發展規



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## LETTER FROM FULBRIGHT CAPITAL

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劃》” on the gross domestic product (the “GDP”) of the CZT city cluster will expect to increase from RMB1.3 trillion in the year of 2010 to RMB2.1 trillion in the year of 2015, representing a steadily growth of approximately 62% in the GDP from 2010.

According to the webpage of the Xiangtan Municipal Government (<http://www.xiangtan.gov.cn>) and Xiangtan Municipal Statistics Bureau (湘潭市統計局), the total area of Xiangtan is approximately five thousand square kilometers with a population of around 2.8 million in 2012. Xiangtan has advantageous transportation system, which connects with other cities in Hunan province and with other major cities in PRC through the highways and Changsha Huanghua airport.

According to the Xiangtan Municipal Statistics Bureau, the fixed assets investment in Xiangtan maintains an annual growth rate of around 35% for the last three years and the GDP of Xiangtan increased from approximately RMB89 billion in 2010 to approximately RMB128 billion in 2012, and grew at around 12% in 2012 as compared to the year of 2011. As stated in the “Xiangtan Municipal Government Work Report (湘潭市《政府工作報告》)”, an annual GDP growth rate of 11% is expected for next five years. Furthermore, the property development investment in Hunan province recorded around 14% growth in 2012 with reference to the Hunan Province Statistics Bureau (湖南省統計局). It is believed that Xiangtan has a flourishing economic outlook and has played an increasingly important role in Hunan Province, the said growth is in line with the Group’s property investment strategy which may bring a substantial economic benefits and thus allow the Company to monetize its modest property investment.

### (2) **Reasons and the Use of Proceeds Arising from the Notes Issue**

#### *Reasons and use of proceeds*

The Directors consider that the Notes Issue represents a good opportunity for the Group to raise additional funds to finance the construction and operation of its existing projects and to accumulate additional land bank or acquire real estate related projects when opportunities arise.

As advised by the Directors, additional loans at favorable terms from banks or financial institutions are not readily available due to the current volatile market conditions but the Company has attempted to obtain loans from banks or financial institutions. Pledges of fixed assets or properties and/or guarantees may also be required for loans offered by financial institutions. The Notes Issue would provide additional funds promptly for the Group without any pledge of fixed assets or properties from the Group.

Pursuant to the Conditions, the Company shall apply at least USD48,000,000 (equivalent to approximately HK\$372,000,000) raised from the Notes Issue to its residential development projects in Xiangtan, Hunan Province, the PRC while the remaining proceeds, that is a maximum of USD32,000,000 (equivalent to approximately HK\$248,000,000), shall be used as general working capital or for the acquisitions of real estate assets. As at the Latest Practicable Date, the Company has not identified any target for acquisitions of real estate assets.

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## LETTER FROM FULBRIGHT CAPITAL

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After taking into account (i) the financial performance of the Group for the two financial years ended 31 December 2012 and six months ended 30 June 2013; (ii) the overall property market in PRC and the statistics of Xiangtan, (iii) the competitive advantages of “Oriental Venice” project; and (iv) the Notes Issue is the immediate available option and does not require any asset pledge (save for the Interest Reserve Account) that may otherwise be required if the Company were to seek additional bank facilities. We are of the view that entering into the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

### (3) Key Terms of the Subscription Agreement

*Key terms of the Subscription Agreement are summarised as follows:*

Date: 18 September 2013 (after trading hours)

*Parties to the Subscription Agreement*

- (a) The Company as the issuer;
- (b) The Guarantor as the guarantor to the Company; and
- (c) The Subscriber as the initial subscriber to the Notes.

Save for the entering into of the Subscription Agreement, the Facility Agreement, the advance of the SG Loan by a subsidiary of the Subscriber and the transactions contemplated under these agreements and to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Subscriber and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Aggregate Principal Amount : In aggregate amount of not more than USD80,000,000 (equivalent to approximately HK\$620,000,000), divided into two tranches. The First Tranche Notes in a principal amount of USD40,000,000 (equivalent to approximately HK\$310,000,000) and the Second Tranche Notes up to a maximum principal amount of USD40,000,000 (equivalent to approximately HK\$310,000,000).

Security and Guarantee to the Notes : *Security*  
The Company shall maintain a cash balance standing to the credit of the Interest Reserve Account an amount equal to 15% per annum on the outstanding aggregate principal amount of the Notes for a period of six months.

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## LETTER FROM FULBRIGHT CAPITAL

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The Company will provide the Security for the Notes. The Notes will be secured by the Account Charge, pursuant to which, the Interest Reserve Account to be set up by the Company will be charged by the Company for the benefit of the Noteholders.

### *Guarantee*

The Notes will also be guaranteed by the Guarantor by the Deed of Guarantee.

Maturity Date : 36 months after the Second Tranche Closing Date (or if the Second Tranche Notes are not issued, the First Tranche Closing Date).

Issue Price : The Notes will be issued at 100% of their principal amount.

Interest : The Notes will bear interest from and including the date of issue of the Notes at a rate of 20.0% per annum, payable semi-annually in arrears on each Interest Payment Date. In the case that the Second Tranche Notes are issued, interest accrued on the First Tranche Notes from and including the First Tranche Closing Date to but excluding the Second Tranche Closing Date will be paid on the Second Tranche Closing Date. The interest rate was determined after arm's length negotiation between the parties. The interest shall be payable in the following manner:

- (a) 15% per annum payable in cash; and
- (b) 5% per annum payable either entirely in cash or entirely by the Share Settlement, whereby:
  - (i) if the Average Share Price is higher than the Minimum Issue Price, the relevant interest shall be satisfied entirely by the issue of Shares in accordance with the following formula:

$$\text{Total number of Shares to be issued} = \frac{\text{Amount of the relevant interest (in USD)}}{\text{Average Share Price (USD equivalent)}}$$

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## LETTER FROM FULBRIGHT CAPITAL

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Provided that if the aggregate number of Shares received by each Noteholders pursuant to the Conditions (and held at the relevant time) shall exceed 4.99% of the outstanding Shares at the relevant time or there will be less than 25% of issued share capital (fully diluted) held by the public as a result of issue of Shares pursuant to the Share Settlement, the remaining amount of interest shall be satisfied entirely by the payment of cash.

- (ii) if the Average Share Price is equal to or lower than the Minimum Issue Price, the relevant interest shall be satisfied entirely by the payment of cash.

Assuming (i) the Second Tranche Notes are issued on the date falling on the expiry of three months from the First Tranche Closing Date; (ii) the Average Share Price is higher than the Minimum Issue Price of HK\$0.82 per Share on all of the Interest Payment Dates and (iii) the Shares are issued at the Minimum Issue Price, a total of up to 118,140,244 Shares, representing approximately 10.63% of the issued share capital of the Company as at the Latest Practicable Date, may be issued for the Share Settlement. However if the Second Tranche Notes are issued on the date falling on the expiry of six months from the First Tranche Closing Date, a total of up to 122,865,854 Shares, representing approximately 11.05% of the issued share capital of the Company as at the Latest Practicable Date, may be issued for the Share Settlement.

Pursuant to the Conditions, a Noteholder may request the Company to issue the Shares to be obtained under the Share Settlement to its nominees.

The Company will seek the Specific Mandate from the Independent Shareholders for the allotment and issue of Shares which may fall to be allotted and issued pursuant to Conditions of the Notes.

Transferability : The Notes may be transferred in whole or in part upon the surrender of the certificate of the relevant Notes and submission of a form of transfer to the registrar.

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## LETTER FROM FULBRIGHT CAPITAL

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Events of Default : If an event of default occurs, the Majority Noteholders at their discretion may give five Business Days' notice to the Company that the Notes are, and they shall immediately become, due and repayable at an amount equal to the sum of (i) 100% of the principal amount outstanding of the Notes to be repaid, (ii) interest accrued but unpaid to the date of repayment and (iii) if the repayment date falls within the Two-Year Period, an additional amount equal to the IRR Amount.

Maturity and Redemption : The Notes will be redeemed at 100% of their principal amount on the Maturity Date, subject to the Company's right to extend the maturity of the Notes by one year by prior written notice to the Noteholders of at least 180 days prior to the Maturity Date.

At any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Noteholders, the Company may redeem all, but not some only, of the Notes at their Early Redemption Amount on the redemption date specified by the Company.

The Company will, at the option of any Noteholders, redeem such Notes at its Early Redemption Amount on the Change of Control Redemption Date upon the occurrence of a Change of Control.

Further details of other principal terms of the Subscription Agreement are set out in the section headed "Subscription Agreement" of the Board Letter.

As set out in the Board Letter regarding to the SG Loan that is based on the information provided by the Guarantor, the proposed term of the SG Loan will be three years with an option to renew for one year. The maximum loan amount of USD120,000,000 (equivalent to approximately HK\$930,000,000) will be advanced at a proposed interest rate of not less than 20% per annum. The SG Loan will be secured by way of charge of certain properties owned by the companies non-wholly owned by the Guarantor. Although the Notes Issue and the SG Loan are not conditional upon each other, according to the Guarantor, the loan under the Facility Agreement will only be drawn down by the Subscriber and hence the issue of the Notes will be completed after the SG Loan is received by the SG Loan Borrower, such that the securities under the SG Loan will be received by the lender of the SG Loan before the Notes is issued. However, the terms of the SG Loan have not been finalized and are still subject to further negotiations between the Guarantor and the Subscriber. We concur with the view of Directors, based on the information available to the Directors, that the terms of the Notes are more favourable than the terms of the SG Loan.

The following analysis has been conducted to assess the fairness and reasonableness of the terms of the Notes, which include reviews on the historical price and trading liquidity of the Shares and the comparison with other issue of notes exercises:

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## LETTER FROM FULBRIGHT CAPITAL

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(i) *Industry Comparable Analysis*

In order to assess the fairness and reasonableness of the terms of the Subscription Agreement, we have reviewed relevant comparable transactions which are selected based on the following criteria: (i) issue of bonds/notes exercises; (ii) companies listed on the Main Board of the Stock Exchange with its principal activities in property development; and (iii) being announced in the past six months immediately preceding the date of the Announcement under similar market sentiment (the “**Industry Comparables**”). We have, to our best effort, identified and made references to, so far as we are aware, 19 Industry Comparables which are exhaustive and the bonds or notes of which were issued to independent third parties, of which we consider appropriate in our analysis since their respective terms of issue is determined after arm’s length negotiation between the relevant parties and we are of the view that each of them represents a fair and representative sample. The Independent Shareholders should note that the Industry Comparables are not identical to the Company in terms of principal business, operations and financial position, and that the dilution impact of the Industry Comparables are not identical to that of the Notes Issue. Nevertheless, we consider that the Industry Comparables could provide a general reference for the recent common market practice of companies listed on the Main Board of the Stock Exchange in the issue of notes exercises. Details of our analyses are set out in the following table:

Company (Stock code)	Announce- ment date	Currency denomi- nated in	Principal Amount (in million)	Interest rate per annum (%)	Maturity (years)	Guarantee	Listing status
Greentown China Holdings Ltd. (3900)	17/9/2013	USD	300	8.00%	5.5	Guaranteed by its subsidiaries	Listed in Hong Kong
CIFI Holdings (Group) Co. Ltd. (884)	12/9/2013	USD	225	12.25%	4.6	Guaranteed by its subsidiaries	Listed in Hong Kong
Skyfame Realty (Holdings) Limited (59)	21/8/2013	HKD	298	10.00%	2	No information given	No application for listing
Franshion Properties (China) Limited (“FP”) (817) <i>(Note 1)</i>	21/8/2013	USD	200	6.40%	8	Guaranteed by the listed company	N/A
Zhuguang Holdings Group Company Limited (1176)	22/7/2013	USD	200	12.50%	3	Guaranteed by its executive directors, its controlling shareholder and its subsidiaries	No application for listing
Central China Real Estate Ltd. (832)	23/5/2013	USD	400	6.50%	5	Guaranteed by its subsidiaries	Listed in Singapore
Powerlong Real Estate Holdings Ltd. (1238)	21/5/2013	RMB	800	9.50%	3	Guaranteed by its subsidiaries	Listed in Hong Kong
Fantasia Holdings Group Co., Ltd. (1777)	21/5/2013	RMB	1,000	7.88%	3	Guaranteed by its subsidiaries	Listed in Singapore

## LETTER FROM FULBRIGHT CAPITAL

Company (Stock code)	Announce- ment date	Currency denomi- nated in	Principal Amount (in million)	Interest rate per annum (%)	Maturity (years)	Guarantee	Listing status
China Properties Investment Holdings Limited (736)	9/5/2013	HKD	50	5.00%	7	No information given	No application for listing
Greentown China Holdings Ltd. (3900)	7/5/2013	RMB	2,500	5.63%	3	Guaranteed by its subsidiaries	Listed in Hong Kong
Minmetals Land Ltd. (230)	19/4/2013	USD	225	5.50%	5	Guaranteed by the listed company	Listed in Hong Kong
Minmetals Land Ltd. (230)	19/4/2013	USD	125	6.50%	10	Guaranteed by the listed company	Listed in Hong Kong
Golden Wheel Tiandi Holdings Co. Ltd. (1232)	19/4/2013	RMB	600	11.25%	3	Guaranteed by its subsidiaries	Listed in Hong Kong
Lai Fung Holdings Ltd. (1125)	18/4/2013	RMB	1,800	6.88%	5	No information given	Listed in Hong Kong
Future Land Development Holdings Ltd. (1030)	16/4/2013	RMB	1,500	9.75%	3	Guaranteed by its subsidiaries	Listed in Singapore
Kaisa Group Holdings Ltd. (1638)	16/4/2013	RMB	1,800	6.88%	3	Guaranteed by its subsidiaries	Listed in Singapore
CIFI Holdings (Group) Co. Ltd. (884)	9/4/2013	USD	275	12.25%	5	Guaranteed by its subsidiaries	Listed in Hong Kong
Greentown China Holdings Ltd. (3900)	27/3/2013	USD	300	8.50%	4.8	Guaranteed by its subsidiaries	Listed in Hong Kong
Sunac China Holdings Ltd. (1918)	27/3/2013	USD	500	9.38%	5	Guaranteed by its subsidiaries	Listed in Singapore
				<b>Mean =</b>		<b>8.45%</b>	<b>4.63</b>
				<b>Maximum =</b>		<b>12.50%</b>	<b>10.00</b>
				<b>Minimum =</b>		<b>5.00%</b>	<b>2.00</b>
<b>The Company</b>		<b>USD</b>	<b>80</b>	<b>20.00%</b>	<b>3.5 (being the maximum period of the maturity)</b>	<b>Guaranteed by the Guarantor</b>	<b>No application for listing</b>

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

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## LETTER FROM FULBRIGHT CAPITAL

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*Note:*

1. The guaranteed notes to be issued by the subsidiary of FP will be due on 27 April 2022. Assuming the guaranteed notes will be issued on the first interest payment i.e. 27 April 2014, it is reasonably expected that the maturity period will be approximately 8 years in our analysis above. Further announcement (including the application for listing) will be made by FP when necessary.

We have checked into the announcements of the above listed companies subsequent to proposed issuance of bonds/notes and observed that, as at the Latest Practicable Date, the proposed issuance of bonds/notes are either issued on the closing date or within the relevant placing period or the relevant agreement(s) of the proposed issuance has not been lapsed. Therefore, we consider that the above Industry Comparables adopted in our analysis are valid comparison.

*(ii) Interest rate*

Based on the above findings, it was noted that the Industry Comparables carried an interest rate ranges from 5.0% to 12.5% per annum. Although the interest rate of the Notes is relatively higher than the Industry Comparables, the lower interest rate cannot be applied to the Company due to (i) the unsatisfactory financial performance of the Company as illustrated by the loss making record since the preceding financial year; (ii) no asset pledge (save for the Interest Reserve Account) is required by the Company; (iii) the proceeds from the Notes Issue will be used to its residential project and other property related business, which is a relatively new business of the Company; and (iv) the Company has no track record of completed residential or other property development project in the past. We consider that the interest rate was arrived at after arm's length negotiation and on normal commercial terms, fair and reasonable.

*(iii) Share Settlement as part of interest payment*

If the Average Share Price is higher than the Minimum Issue Price on each Interest Payment Date, the interest at a rate of 20.0% per annum will be divided into 2 portions which are payable in cash and by the Share Settlement. As set out in the Board Letter, assuming (i) the Second Tranche Notes are issued on the date falling on the expiry of six months from the First Tranche Closing Date, (ii) the Average Share Price is higher than the Minimum Issue Price on all of the Interest Payment Dates, and (iii) the Shares are issued at the Minimum Issue Price, a total of up to 122,865,854 Shares, representing approximately 11.05% of the issued share capital of the Company as at the Latest Practicable Date, may be issued for Share Settlement. These Shares will be issued under the Specific Mandate to be sought at the SGM.



## LETTER FROM FULBRIGHT CAPITAL

The table below sets out the Company's shareholding structure as at the Latest Practicable Date and the effect on the shareholding structure of the Company upon (i) full conversion of the outstanding Convertible Bonds; and (ii) the allotment and issue of all Shares under the Share Settlement and (iii) the exercise of all options under the Option Deed by the Lender to sell all Shares to the Guarantor are set out as below:

Shareholders	As at the Latest Practicable Date		After full conversion of Convertible Bonds (Note 3)		After allotment and issue of all Shares under the Share Settlement (Assuming the Second Tranche Closing Date falls on 3rd month after the First Tranche Closing Date)		After allotment and issue of all Shares under the Share Settlement (Assuming the Second Tranche Closing Date falls on 6th month after the First Tranche Closing Date)		After the exercise of all options by the Lender under the Option Deed (Note 5)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The Guarantor (in his personal capacity) (Notes 1 and 5)	-	-	-	-	-	-	-	-	122,865,854	8.78
Full Dragon Group Limited (Note 1)	766,016,300	68.91	766,016,300	60.04	766,016,300	54.95	766,016,300	54.76	766,016,300	54.76
Alpha Harbour Limited (Notes 1 and 2)	-	-	55,813,953	4.37	55,813,953	4.00	55,813,953	3.99	55,813,953	3.99
Classic Excel Investments Limited (Notes 1 and 2)	-	-	55,813,953	4.37	55,813,953	4.00	55,813,953	3.99	55,813,953	3.99
Digital Skyline Limited (Notes 1 and 2)	-	-	52,651,418	4.13	52,651,418	3.78	52,651,418	3.76	52,651,418	3.76
The Lender (Notes 4 and 5)	-	-	-	-	118,140,244	8.47	122,865,854	8.78	-	-
Other Shareholders	345,587,516	31.09	345,587,516	27.09	345,587,516	24.80	345,587,516	24.72	345,587,516	24.72
<b>Total</b>	<b>1,111,603,816</b>	<b>100</b>	<b>1,275,883,140</b>	<b>100</b>	<b>1,394,023,384</b>	<b>100</b>	<b>1,398,748,994</b>	<b>100</b>	<b>1,398,748,994</b>	<b>100</b>

*Notes:*

- The entire issued share capital of each of Full Dragon Group Limited, Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited is owned by the Guarantor, the Guarantor is deemed to have interest in the Shares held by these companies.
- The Shares held by each of Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited represent 55,813,953, 55,813,953 and 52,651,418 Shares to be allotted and issued upon the exercise of conversion rights attaching to the Convertible Bonds.
- The shareholding structure sets out in this column is for illustration purposes only based on the outstanding amount of the Convertible Bonds of HK\$70,640,110 as at the Latest Practicable Date. If the public float of the Company cannot be maintained at 25% or above after conversion of the Convertible Bonds, no converted Shares will be issued in accordance with the conditions of the Convertible Bonds.
- The shareholding structure sets out in this row is for illustration purposes only based on the maximum number of Shares that may be issued under the Share Settlement at the Minimum Issue Price and assuming the Second Tranche Closing Date falls on (i) the third month or (ii) the sixth month after the First Tranche Closing Date.

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## LETTER FROM FULBRIGHT CAPITAL

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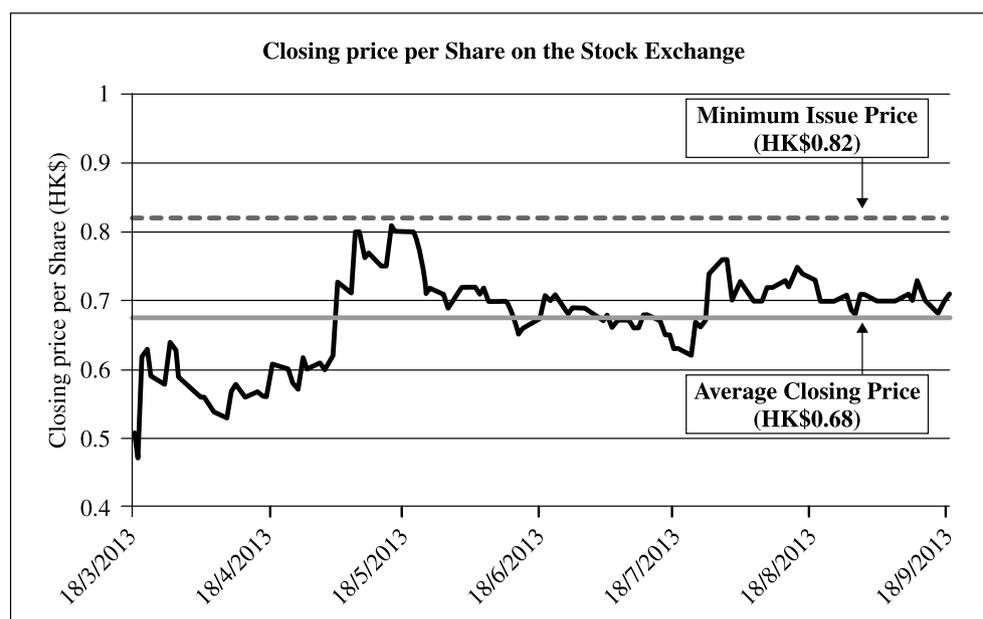
5. Assuming maximum number of Shares issued under the Share Settlement are sold or transferred to the Guarantor pursuant to the Option Deed. However, if the public float of the Company will fall below 25% as a result of the exercise of a put option under the Option Deed, the Lender has the right to, instead of requiring the Guarantor to purchase the relevant Shares, sell the Shares to any third party or in the open market. The terms of the Option Deed have not been finalized and will be executed by the Lender and the Guarantor before the date of SGM.

Based on the above table, the maximum number of 122,865,854 Shares to be issued as part of the interest payable under the Share Settlement is attributable to an aggregate amount of approximately USD13,000,000 so as to increase the working capital for the Group. Having considered to (i) the improvement of the working capital; (ii) the Share Settlement could potentially enlarge and diversify the shareholder base of the Company; and (iii) the Lender will have the right to sell such Shares to any third party or in the open market in order to maintain the public float of 25% of the total issue share capital of the Company or avoid triggering the mandatory offer obligation pursuant to the Hong Kong Codes on Takeovers and Mergers, we consider that the dilution effect on the interest of the Shareholders in the Company, including the Shares which may be sold to the Guarantor under the Option Deed, is acceptable and in the interests of the Company.

(iv) *Minimum Issue Price related to historical price and trading liquidity of the Shares*

Set out below are charts showing the closing price and daily trading volume of the Shares as quoted on the Stock Exchange for the 6 months period ended 18 September 2013 (the “**Review Period**”), being the last trading day of the Shares immediately prior to and including the date of the Subscription Agreement.

Chart of closing price per Share on the Stock Exchange



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

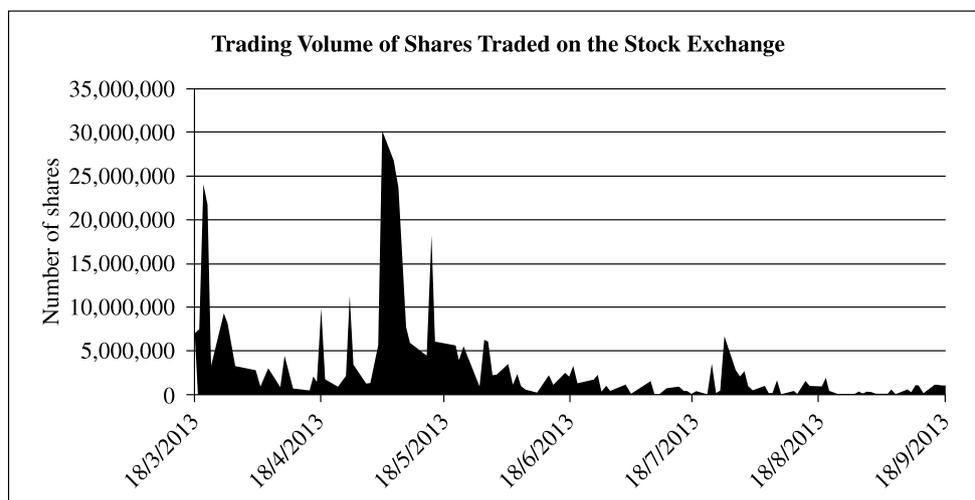
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## LETTER FROM FULBRIGHT CAPITAL

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During the Review Period, the closing prices of the Shares ranged from the lowest of HK\$0.47 on 19 March 2013 to the highest of HK\$0.81 on 15 May 2013 with the average closing price (the “**Average Closing Price**”) of the Shares during the Review Period is approximately HK\$0.68 per Share. The Minimum Issue Price of HK\$0.82 per Share in the Share Settlement pursuant to the Subscription Agreement is above the highest closing price under the Review Period, and represents a premium of 20.6% the Average Closing Price.

Chart of Trading Volume of Shares traded on the Stock Exchange



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

As illustrated in the charts above, the trading volume of the Shares was relatively thin during the Review Period, with average daily trading volume being approximately 3,382,478 Shares, representing approximately 0.3% of the Company’s issued share capital as at the Latest Practicable Date.

By taking into account of the above analysis on the historical price performance and trading volume of the Shares, being (i) the Minimum Issue Price lies above the range of the share price under the Review Period and represents a premium of the Average Closing Price during the Review Period to minimise the potential dilution effect on the shareholding of the existing Shareholders, and (ii) the Shares has been rather illiquid during the Review Period, we consider that the Minimum Issue Price is fair and reasonable and is in the interest of the Company and its shareholders as a whole.

(v) *Guarantee*

Given that the asset pledge (save for the Interest Reserve Account) is not required in this transaction, it may otherwise require higher interest rate. Having considered the current financial position of the Group and the prevailing market conditions, we consider the guarantee by the Guarantor is favourable to the Group on the Notes Issue.

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## LETTER FROM FULBRIGHT CAPITAL

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*(vi) Early redemption and the IRR amount*

In respect of the Notes with the term of early redemption, the Company has rights to redeem 100% of the principal amounts of the Notes at any time. We noted from the Directors that this early redemption terms are designed to protect the Noteholders' expectation of an uninterrupted stream of interest payments by prohibiting early repayment to pay the Noteholders a premium to compensate for the lost interest, which has been determined after arms' length negotiations between the Company and the Subscriber. The early redemption would allow the Company the flexibility to redeem the Notes when the Company has adequate cash flow arising from the pre-sale of the property in "Oriental Venice" project. Nevertheless the early redemption would require the Company to pay extra charges including (i) an early redemption premium of 1% on the principal amount; and (ii) the IRR amount of 22.5% when the redemption date either falls into the 18-Month Period or the Two-Year Period, the extra charges will still be less costly than the total interest expenses incurred up to the Maturity Date. We consider that the early redemption option is favourable to the Company as in the event that the early redemption option of the Company is exercised, this allows the Company the flexibility to reduce the interest expenses arising from the Notes.

*(vii) Other terms of the Notes*

We have also reviewed other major terms of the Notes Issue and are not aware of any terms which are unusual.

Based on the foregoing, despite the interest rate is relatively higher than the Industry Comparables, taking into account of (i) the loss making financial position of the Group; (ii) the reasons arising from the Notes Issue as discussed above; (iii) use of proceeds arising from the Notes in consideration of the business focus in property sector and the competitive advantages of the "Oriental Venice" project as discussed above; (iv) the arrangement of the Shares Settlement to free more working capital; (v) the Minimum Issue Price represents a premium to the Average Closing Price; and (vi) the early redemption to reduce the interest expenses, we consider that the key terms of the Subscription Agreement have been determined under after arms' length negotiations between the Company, the Guarantor and the Subscriber. The Subscription Agreement entered into among parties are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

**(4) Other Financing Alternatives**

In order to obtain funds for the Group to strengthen the financial position of the Group and equip the Company with readily available funds to procure the investment in "Oriental Venice" project as and when they arise as detailed in the paragraph headed 'Information of the Group' and 'Reasons and use of proceeds arising from the Notes Issue' above, the Directors have considered various alternative means of financing.

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## LETTER FROM FULBRIGHT CAPITAL

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### *Debt financing and equity financing*

With reference to the paragraph headed ‘reasons and use of proceeds’ above, the Directors advised that the debt financing from bank borrowing would be difficult for the Group to obtain additional bank loans with favourable terms in light of loss making financial position of the Group and lack of track record in the residential development project. It was considered that the timing of obtaining bank loans in sufficient funding may not be prompt enough which may not be favourable to the Group as the “Oriental Venice” project requires immediate funding.

For the issue of convertible notes, it is unlikely that the Group is able to identify any suitable prospective investor for sufficient funds due to the loss making financial track record and the Company’s stock performance in respect of relatively low volatility of stock price and low liquidity of trading volume. The issue of any convertible securities may have substantial dilution effect on the shareholding of the existing Shareholders if it is converted in full as compared with the Notes Issue, and will require to assess the fair value changes after the initial recognition which may impact the financial performance.

As for the equity financing such as share placement, the Directors are of the view that it would give rise to an immediate dilution effect on the shareholding of the existing Shareholders and the Directors have not identified any suitable prospective investors as at the Latest Practicable Date given current size of the Company, the recent financial performance and the aforesaid stock performance. Given the recent volatile market condition, the Directors takes the view that deep discount to the issue price to be offered to potential underwriter(s) to increase the attractiveness of any share placement, open offer and right issue, which the Director considers to be undesirable. In addition, the Directors advised us that in view of recent financial performance of the Group, it is uncertain as to whether the Company would be able to procure underwriter(s) in open offer or right issue, not to mention if the procurement could be achieved at a lower cost and the timing. Due to the above circumstances, we believed that it is unlikely that the Group can raise sufficient fund through equity financing on terms that are favourable to the Group.

In light of the above circumstances, the issue of the Notes represent a good opportunity for the Company to execute and procure its “Oriental Venice” project with readily available funds in a more time efficient manner than other alternatives at the material times. We concur with the view of Directors that the issue of the Notes is the most appropriate way for or beneficial to the Group and the Shareholders as a whole.

### **(5) Possible Financial Effects of the Notes**

The following analysis on the effects on the net asset value, working capital, gearing and earning position of the Group as a result of the issue of the Notes is for illustration purpose only assuming that there will not be any changes to the issued share capital of the Company as at the Latest Practicable Date.

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## LETTER FROM FULBRIGHT CAPITAL

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(i) *Net asset value*

With reference to the IR 2013, the unaudited consolidated net asset value of the Group was appropriately HK\$1,517.5 million as at 30 June 2013. As advised by the Directors, the net proceeds of the Notes Issue deriving therefrom would increase the Group's current asset (before the Group utilises the said proceeds for its future investment) and increase the Group's long term liabilities. As such, there would be no material changes in the net asset value of the Group upon the completion of the Notes Issue.

(ii) *Liquidity*

As referred to the IR 2013, the Group had bank balance and cash of approximately HK\$169.8 million as at 30 June 2013. Immediately upon completion of the issue of the Notes, the Company will raise net proceeds of not more than USD79,419,000 (equivalent to approximately HK\$615,497,000) if two tranches of the Notes are issued. Accordingly, the liquidity and working capital position of the Group will be improved upon completion of the issue of the Notes.

(iii) *Gearing*

Immediately upon completion of the issue of the Notes, there will be an increase of other borrowings in long term liabilities of the Group. As set out in the IR 2013, the gearing ratio of the Group (calculated on the sum of interest-bearing bank and other borrowings, loans from a Shareholder, the obligations under finance leases and convertible bonds over total equity) as at 30 June 2013 was approximately 15.4%. Accordingly, the Group's gearing ratio will be increased to 56.0% <sup>Note 1</sup> upon the completion of the issue of the Notes.

*Note 1:* Gearing ratio = (HK\$234.0million\*+HK\$615.5million\*\*)/HK\$1,517.5million\*\*\* = 56.0%

\* *being the sum of the interest-bearing bank and other borrowings, loans from a Shareholder, the obligations under finance leases and convertible bonds as extracted from the IR 2013.*

\*\* *being the maximum net proceeds from the two tranches of the Notes Issue.*

\*\*\* *being the amount of total equity as extracted from the IR 2013.*

(iv) *Earnings*

As the Notes bear an interest of 20.0% per annum, the Directors expected the Notes Issue would reduce the earnings of the Group due to the effective interest expenses of the Notes will be charged to the consolidated income statement up to the Maturity Date. In view of that the Notes Issue may strengthen the Company's strategic capability for pursuing and executing its business strategy in "Oriental Venice" project, the Directors are optimistic on the overall future earnings of the Group upon the completion of the Notes Issue.

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## LETTER FROM FULBRIGHT CAPITAL

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It should be noted that the aforementioned information (i) is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the issue of the Notes; (ii) would not affect our opinion on the issue of the Notes; and (iii) serves to provide additional information to the Shareholders.

### RECOMMENDATION

Having taken into consideration of the aforesaid principal factors, we are of the view that the terms of the Subscription Agreement and the transaction contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the proposed resolution to approve the Subscription Agreement and the transaction contemplated thereunder at the upcoming SGM.

Yours faithfully,  
For and on behalf of  
**Fulbright Capital Limited**  
**Arthur Kan**  
*Director of Corporate Finance*

**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) Directors' interests and short positions in shares, underlying shares and debentures**

As at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

**(b) Interests and Short Positions of Shareholders**

So far as is known to any Director or chief executive of the Company, as at Latest Practicable Date, Shareholders (other than Directors or chief executives 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

*Long Positions of Substantial Shareholders in the Shares*

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
Mr. Cheng Keung Fai	Interest of controlled corporation	930,295,626	83.69%
Full Dragon Group Limited (Note 1)	Beneficial owner	766,016,300	68.91%
Alpha Harbour Limited (Note 2)	Beneficial owner	55,813,953	5.02%
Classic Excel Investments Limited (Note 2)	Beneficial owner	55,813,953	5.02%
Digital Skyline Limited (Note 2)	Beneficial owner	52,651,418	4.74%

Notes:

1. The entire issued share capital of Full Dragon Group Limited is owned by the Guarantor.
2. The Shares held by each of Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited represent 55,813,953, 55,813,953 and 52,651,418 Shares to be allotted and issued upon the exercise of conversion rights attaching to the Convertible Bonds. The Guarantor, the beneficial owner of the entire issued share capital of each of Alpha Harbour Limited, Classic Excel Investments Limited and Digital Skyline Limited, is deemed to be interested in the Shares held by these companies.

**(c) Interests of substantial shareholders in other members of the Group**

As at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who was 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 other member of the Group, or any options in respect of such capital.

### 3. COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed above, the Directors are not aware that any of them or any of their associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

### 4. DIRECTORS' INTERESTS IN CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2012, the date to which the latest published audited accounts of the Company were made up, 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.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which was significant in relation to the business of the Group.

### 5. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012 (being the date to which the latest published audited combined financial statements of the Group were made up).

### 6. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has given opinion or advice which is contained or referred to in this circular:

<b>Name</b>	<b>Qualifications</b>
Fulbright Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, Fulbright Capital did not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

- (c) As at the Latest Practicable Date, Fulbright Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2012, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.
- (d) Fulbright Capital has given and has not withdrawn its written consent to inclusion of their letter dated 25 October, 2013 in this circular and the references to its name included herein in the form and context in which it appears.

## **7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on weekdays (Saturdays and public holidays excepted) up to and including 11 November, 2013:

- (a) the Subscription Agreement;
- (b) the final draft of Account Charge;
- (c) the final draft of Deed of Guarantee;
- (d) the memorandum of association and bye-laws of the Company;
- (e) the annual reports of the Company for the last two financial years ended 31 December 2012;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this circular;
- (g) the letter from Fulbright Capital, the text of which is set out on pages 25 to 45 of this circular; and
- (h) the letter of consent from Fulbright Capital referred to in the above paragraph headed “Expert and Consent” in this Appendix.

## **8. MISCELLANEOUS**

- (a) The Company is principally engaged in the rental of property, property and hotel development and related business, film production, film processing and related business.
- (b) The company secretary of the Company is Mr. Chan Chun Fat. He is a solicitor of the High Court of the Hong Kong Special Administrative Region.

- (c) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited, 26 Burnaby Street, Hamilton HM 11, Bermuda. The branch share registrar and transfer office of the Company is Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

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## NOTICE OF SGM

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# CHEUNG WO INTERNATIONAL HOLDINGS LIMITED

## 長和國際實業集團有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00009)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of Cheung Wo International Holdings Limited (the “**Company**”) will be held at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 11 November 2013 at 11:00 a.m. for the following purposes:–

### ORDINARY RESOLUTION

**“THAT:**

- (a) the terms of the subscription agreement (the “**Subscription Agreement**”) dated 18 September 2013 entered into between the Company and Sunny Glory Investments Limited as the subscriber (the “**Subscriber**”) and Mr. Cheng Keung Fai as the guarantor (the “**Guarantor**”) in relation to the issue of principal amount of not more than USD80,000,000 (equivalent to approximately HK\$620,000,000) 20.00% guaranteed secured notes by the Company (the “**Notes**”) (details relating to the Subscription Agreement are set out in the circular of the Company dated 25 October 2013 and a copy of the Subscription Agreement marked “A” has been produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification), be and are hereby approved, confirmed and ratified;
- (b) the issue of the Notes by the Company pursuant to the terms and conditions of the Subscription Agreement and the terms and conditions of the Notes (the “**Conditions**”) the form of which is attached as Schedule 1 to the Subscription Agreement be and are hereby approved;
- (c) the terms of the account charge to be entered into between the Company and the Subscriber pursuant to the Subscription Agreement (the “**Account Charge**”) (copy of the Account Charge marked “B” has been produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification) and all the transactions contemplated under the Account Charge be and are hereby approved;
- (d) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the New Shares (as defined below), the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot, issue, credited as fully paid, such number of ordinary shares

\* For identification purpose only

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## NOTICE OF SGM

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(the “**New Shares**”) in the capital of the Company as may be required to be issued under the Notes on and subject to the terms and conditions of the Subscription Agreement and the Conditions, provided that the Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 11 June 2013;

- (e) all the transactions contemplated under the Subscription Agreement in connection with the issue of the Notes (collectively referred to as the “**Transactions**”) be and are hereby approved; and
- (f) the Directors be and are hereby authorised to do all such acts and things and sign and execute all such documents as they consider necessary or expedient in connection with the issue of the Notes, the allotment and issue of the New Shares upon the payment of interest under the Notes and/or to give effect to the terms of, or the Transactions contemplated by, the Subscription Agreement.”

By Order of the Board  
**CHEUNG WO INTERNATIONAL HOLDINGS LIMITED**  
**JIN LEI**  
*Chairman*

Hong Kong, 25 October 2013

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business in Hong Kong:*  
Room 4101  
41st Floor  
The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the SGM is enclosed herewith. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

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## NOTICE OF SGM

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4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, then one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. All the resolutions are to be voted by way of poll.

*As at the date hereof, the Board comprises six Directors, of which the executive Directors are Mr. Jin Lei (Chairman), Ms. Law Kee, Alice (Chief Executive Officer), Mr. Hui Wai Lee, Willy; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan.*